





# CONTENTS

<b>Foreword from the President of the Management Board</b>	<b>5</b>
<b>Company Profile</b>	<b>8</b>
Strategy and Analysis	8
Organizational Profile	13
Report Parameters	24
Governance, Commitments, Engagement	29
<b>Economic Aspect</b>	<b>38</b>
Economic Indicators	42
<b>Environmental Aspect</b>	<b>50</b>
Environmental Performance Indicators	54
<b>Social Aspect</b>	<b>72</b>
Labour Practices and Decent Work Indicators	76
Human Rights	84
Society	86
Product Responsibility	88
<b>Appendices</b>	<b>94</b>
Questionnaire „Let INA know“	95
References - Bibliography and Individuals	96
Third-party Reviews	98
GRI G3 Guidelines Application Level of the Report	100





# FOREWORD FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear friends,

After ten years of reporting annually on environmental protection and three years of CSR reporting, let me present you with our first triple bottom line sustainability report.

As a socially responsible, vertically integrated oil corporation with a leading role in the oil and gas markets of Southeast Europe, we are committed to constantly improving our business operations, as well as perfecting the efficiency and quality of our products and services. Management of our business is traditionally based on integrity, transparency and honesty.

Our understanding of social, environmental and ethical issues and fulfilment of our stakeholders' demands has helped us gain their trust. In concern for our stakeholders' wellbeing, we contribute to sustainable economic development by closely co-operating with our employees, the local community and society at large. We are constantly improving our working environment, and implementing modern educational/training programs for our employees. We also aid our host communities in their development.

As in past years, in 2006 INA received a number of prizes and recognitions. Among them we were especially proud to receive a certificate of recognition for our contribution to the development of the town of Ilok.

In 2006, INA's shares were listed on the Zagreb and London Stock Exchanges. The INA-MOL consortium signed an agreement with Energopetrol for Energopetrol's recapitalization, thus acquiring a 67% share of the company. We also launched the SAP system in 2006, currently the most advanced software in the world for oil activities and operations.

Our sales revenue marked a record growth of 11 percent more than in 2005, and amounted to HRK 23,434 million. Core business profit declined by HRK 436 million and amounted to HRK 974 million, due to capped natural gas prices and lower refinery margins of the domestic market.

Presently, implementation is underway of a number of projects directly or indirectly associated with environmental protection. The aim of these projects is to upgrade eco-efficiency of our operations by reducing pollutant emissions into the surroundings of all our production, refining, storage, and retail facilities, as well as improve functionality and safe operation of the processing plants, rationalize the use of energy, raw materials, and other input materials for the production of low-sulphur diesel fuels and petrol.

In 2006, we registered 17 unforeseen events with environmental impact, which is 47% less than in the previous year.

We will be investing approximately US\$1.1 billion into the modernization of our refineries in order to protect the environment, produce EURO V quality fuels, and increase refining capacity.

The INA 2006 Sustainability Report has been prepared using the latest GRI G3 Guidelines and has been reviewed independently. It contains relevant information reflecting INA's significant economic, environmental and social impacts that may influence our stakeholders' judgement or decisions.



Tomislav Dragičević, DSc  
President of the INA d.d. Management Board



# Company Profile



# COMPANY PROFILE

## 1. STRATEGY AND ANALYSIS

### STRATEGIC GOALS

Together with our subsidiary companies, INA-Industrija nafte d.d. is one of the largest vertically integrated groups in the oil industry of Southeast Europe measured by total proved reserves and hydrocarbon production, refining capacity, product sales and revenue, while our total revenue makes us the leading economic entity in Croatia. According to the principle of newly created value, in 2006 INA took second place among 500 top Croatian companies.

Our long-term strategic goal is to become a profitable leader in the market of top quality oil products in Southeast Europe following the principles of sustainable development.

To that end, our mid- to long-term strategic priorities are focused on the following key topics:

- by the year 2010 reach profits comparable to western industry leaders,
- in co-operation with our strategic partner, MOL, become leader in top-quality oil products in Southeast Europe.

INA's short- to mid-term strategic goals are to increase reserves and hydrocarbon production in Croatia and abroad, modernize our refining capacities in order to facilitate production of EU-quality fuels and meet environmental requirements, attain regional leadership in oil-product output and sales, restructure our domestic retail network, expand our retail network in the region, optimize business by cutting costs, and set up the SAP system for business monitoring and planning.

The long-term sustainable growth of our oil and gas production and sales is based on exploration and production projects in Croatia and abroad, as well as EOR projects in Croatia with the aim to increase reserves and hydrocarbon production, while the long-term sustainability of our oil-product output and sales is based on the high growth rate of the regional energy demand.

In the previous reporting period, INA faced increased world oil prices caused by the Middle East crisis, a growing world demand for oil and oil products due to enhanced demand in highly populated Asian countries, and a series of hurricanes in the Gulf of Mexico.



INA failed to soften the impact of the abrupt oil price increase in 2006 and the record crude oil prices of almost \$80/bbl, with an adequate domestic price growth of oil and gas due to the changed oil-pricing formula for the domestic market, while due to technological outdatedness, INA also failed to realize the positive effects of growing refinery margins in export markets.

INA has started implementation of its business goals in respect of regional sales and business improvement, the most significant being: acquisition of a majority share in Energopetrol of Bosnia & Herzegovina as part of the INA-MOL consortium; increased hydrocarbon exploration and production in Syria and Egypt resulting in production growth; intensified modernization of our refining capacities; completion of the SAP project, and other cost-cutting projects. In addition, we have launched several strategic projects, such as: retail network restructuring, wholesale improvement, optimization of logistics. The projects focus on elevating the quality of socially responsible performance. Consolidation of the regional oil industry, as well as accession into regional and EU integrations will have considerable influence on the liberalization of the oil-products market and INA's positioning, whereas construction of oil and gas pipelines from Russia and the Caspian region will offer us the opportunity to diversify our energy supply routes.

## **1.2 KEY IMPACTS, RISKS, OPPORTUNITIES**

INA is an influential participant in both the domestic and regional markets, where we sell oil products and gas from our own production as well as imported products. Our key influence is on the domestic market, with a 75% share in total oil-product sales. We cover the entire natural gas demand from domestic production (60%) and import. In 2006, INA Group realized a sales revenue of US\$18,479 million, and a core business profit of US\$170 million.

In the broader context, INA Group's financial results represent a significant contribution to domestic economy and national income. Our business relations with economic and state entities also greatly influence the status of domestic economy.

INA also plays an important role in the economy when it comes to employment. The ten thousand citizens of Croatia that we employ are provided a secure living, while internal regulations guarantee our workers a higher level of workers' rights than defined by national law.

We at INA are well aware that our business operations and supporting facilities may, in various ways, impact the natural or man-made environments such as the air, water, soil, urban or rural communities, as well as directly or indirectly impact human health and the quality of living, which is why we undertake to uphold national law and implement internationally recognized standards. Our operations comply with national regulations and EU directives on competition protection.

In the segment of exploration and production, INA deals with all the challenges associated with the mere nature of these activities, such as the high risk of investments, earnings, risks concerning the health of our workers, preservation of the environment, etc. In regard to current legislation and our role as oil and gas supplier of the domestic market, INA-Group's financial performance will be influenced considerably with the energy market's liberalization, especially with the regulated prices of natural gas.

In production and sales, our greatest challenge is the regulation of the domestic market in regard to the quality and prices of our products, implying modernization of our refinery capacities for production of EU quality fuels. Refinery modernization



as the key priority in assuring sustainable development, with an estimated investment of approx. US\$1.1 billion, is an essential requirement for increasing our oil-products sales volume on both the domestic and regional markets. By the year 2015, the expected sales growth rate will allow profitable results, with core business revenue of HRK 9 billion, and considerable improvement in the key financial parameters of our performance.

Investments into hydrocarbon exploration and production are also a business priority of INA. Our Northern Adriatic projects represent the most important investments in the domestic natural gas market. In regard to fuel sales through our own retail network, major investments are required in the modernization of our petrol stations in order to secure competitiveness.

Capital investments in 2006 reached HRK 850 million - HRK 239 million more than the previous year - mainly due to the HRK 130 million invested into the modernization of the Sisak Refinery, and reconstruction/revamp of the vacuum distillation, isomerization, and FCC plants of the Rijeka Refinery as part of the modernization project.

A number of factors influence our business, of which the global factors are associated with the variable prices of crude oil and natural gas.

Regulations and government interventions, which are also subject to changes, additionally influence our business. INA is thus required to sell natural gas domestically at regulated prices that are lower than in foreign markets, which has a significant negative effect on our profit, especially in business conditions regarding gas price growth in foreign markets. The regulation of fuel prices, i.e. the amended Fuel Pricing Decree defining the maximum prices of individual fuels, also affected our core business profit in 2006, due to high world prices of crude.

The business risks fully or partially under the influence of INA Group are associated with the risks regarding timely and successful refinery modernization enabling production of EU-quality fuels, as well as with the numerous risks that accompany exploration drilling and well development.

In the segment of fuel retail, the restructuring and modernization of our retail network may be prolonged and/or be less



effective than expected. In all our fields of activity we face competition from other oil and gas companies.

The growing energy demand in Croatia and throughout Southeast Europe is an opportunity for us to implement our projects of oil and gas exploration, development and production, refinery modernization, retail network restructuring, cost cutting, and achieve sustainable development and create additional values.

## **SUSTAINABILITY TARGETS OF INA d.d.**

### • **REFINERY MODERNIZATION**

INA's absolute priority is the modernization of its two refineries, one in the continental part and one on the coast of Croatia, which will enable production of EU-quality fuels and reduce pollutant emissions from our production capacities. From 2006 to 2011, INA plans to invest approx. US\$ 1.1 billion into the Rijeka and Sisak refineries.

### • **LOGISTICS OPTIMIZATION**

INA's goal is to achieve savings of at least HRK 170 million in the period from 2006 to 2008 by rationalizing our network of terminals and storage facilities, outsourcing road trans-

portation services, computerizing terminals, organizational restructuring, and measuring business results.

### • **RETAIL NETWORK EXPANSION AND MODERNIZATION**

In Croatia, we have currently 7 first-class petrol stations under construction, and in 2007 we plan to construct another 4 first-class petrol stations.

The INA-MOL consortium signed an agreement with Energopetrol and the government of Bosnia & Herzegovina for Energopetrol's recapitalization, thus acquiring a 67% share in the company (65 petrol stations in Bosnia & Herzegovina). The transaction will be finalized in 2007.

INA is negotiating to reclaim its seized property and gain control over Krajinapetrol and 14 of its petrol stations in the Republic of Srpska in Bosnia & Herzegovina.

### • **IMPLEMENTATION OF THE COST-CUTTING AND EFFICIENCY IMPROVEMENT PROGRAM**

Based on analyses carried out so far, INA aims to achieve additional annual savings of approx. HRK 70 million upon implementation of the entire project, expected by the end of



2008. The main areas where improvements are possible include thermal energy efficiency, the procurement process, maintenance, use of the SAP system, and HSE performance.

- **CORPORATE GOVERNANCE UPGRADE**

Corporate governance will improve with the improvement of our business management system in accordance with internationally recognized standards.

- **STRENGTHENING OF CORPORATE CULTURE AND COMMUNICATION**

We will continue improving our employee evaluation system, training, and career development with the aim to stimulate a positive working atmosphere, a sense of belonging and fellowship. Internal and external communication will also be improved systematically.

- **AIDING COMMUNITIES**

In 2007, INA plans to donate HRK 7 million to humanitarian, cultural, educational, sports, environmental, healthcare, and scientific projects. Our donations and sponsorships will be granted by public competition. Implementation of our “Volunteers’ Club” will encourage our employees to volun-

teer their time and skills to social, healthcare, environmental, and educational campaigns.

INA employees will participate actively in government and non-government organizations, as well as in work groups for preparation of EU accession negotiations.

- **STRENGTHENING PARTNERSHIP RELATIONS**

In order to build trust and gain the reputation of a socially responsible company, we will continue to strengthen our partnership with all our key stakeholders on a mutually beneficial, win-win basis.

- **REGULAR ANNUAL SUSTAINABILITY REPORTING**

Apart from our long tradition in financial reporting, INA also reports on environmental protection and corporate social responsibility.

Our membership in the UN Global Compact commits us to promote the human rights, workers’ rights, environmental protection, and anti-corruption principles in our everyday operation, as well as report to our stakeholders on an annual basis on the implementation of sustainability principles.

## 2. ORGANIZATIONAL PROFILE OF INA d.d.

### 2.1.

INA-Industrija nafte d.d. Zagreb was founded on January 1, 1964 by the integration of Naftaplin (oil and gas exploration and production company) and the Rijeka and Sisak Refineries. By the end of that decade, INA had expanded to include the Zagreb Refinery, Trade (for domestic trade), the petrochemical plants OKI and DINA, and the Kutina mineral fertiliser plant. In 1993, INA became a joint-stock company.

INA-Group comprises INA, d.d. as the parent company, and several fully or partly owned companies. The Group is Croatia's leader in oil and gas exploration, production, refining, and distribution.

### 2.2 INA PRODUCTS AND SERVICES

- Oil and gas exploration and production in Croatia and abroad.
- Natural gas import, and wholesale of imported and domestic gas to industrial consumers and distributors.
- Oil refining in the Rijeka and Sisak refineries.
- Oil products retail.
- Crude oil and products trading.

## PRODUCT PORTFOLIO - FUELS AND OTHER PRODUCTS

### LIQUEFIED PETROLEUM GAS

LPG commercial  
propan-butan mix  
auto LPG  
special - purpose LPG

### VIRGIN NAPHTHA

### PETROL

INA EUROSUPER 95  
INA SUPER 95  
INA SUPER PLUS 98

### DIESEL FUELS

INA EURODIESEL  
INA DIESEL

### JET FUEL

### KEROSENE

industrial kerosene  
heating kerosene  
well kerosene

### FUEL OILS

fuel oil extra light  
fuel oil light  
fuel oil medium  
fuel oil heavy

### MARINE FUELS

marine distillate fuels  
marine residual fuels

### OTHER PRODUCTS BITUMEN

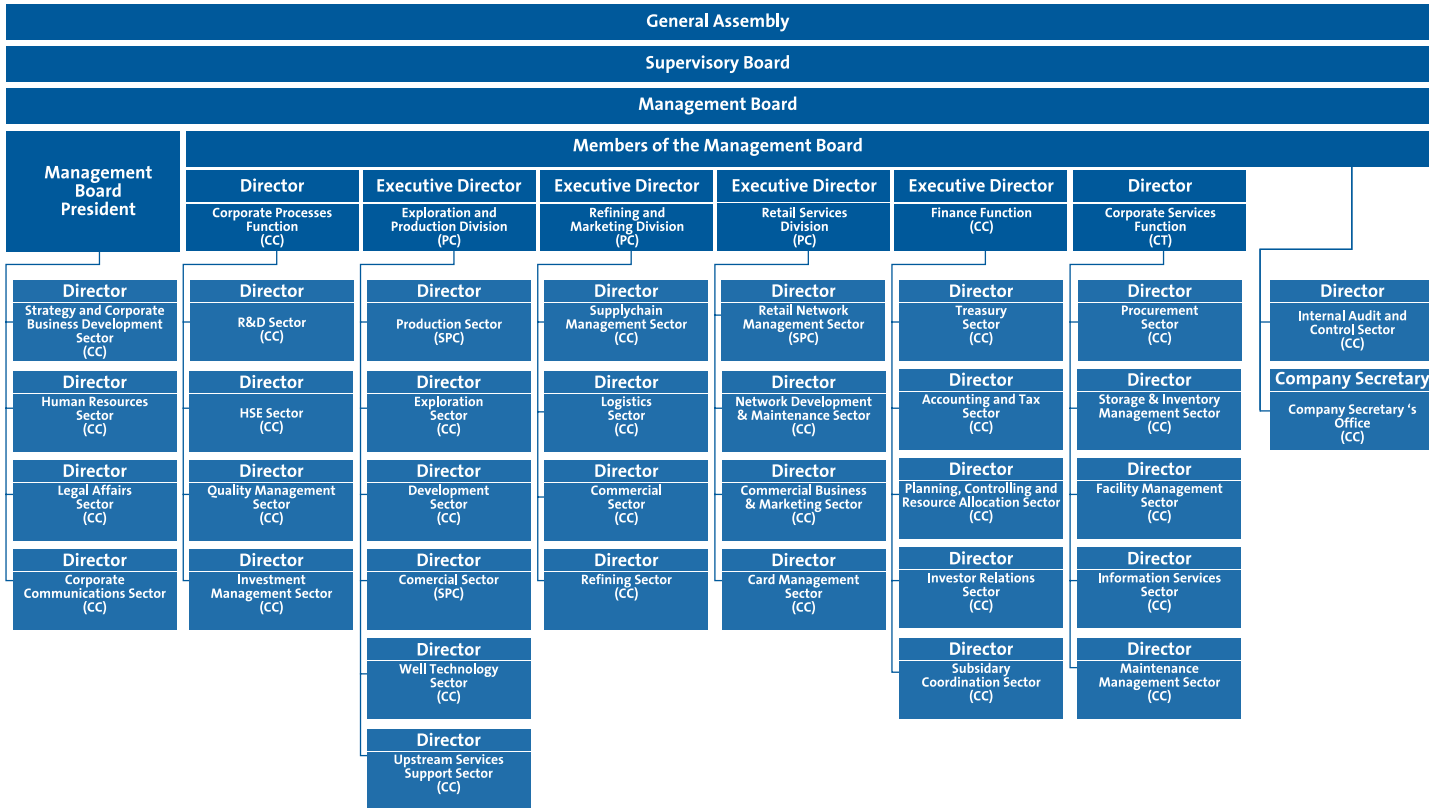
road construction bitumen  
industrial bitumen  
polymer bitumen

### COKE

green petroleum coke  
calcined petroleum coke - regular  
calcined petroleum coke - premium

### LIQUID SULPHUR

### 2.3 OPERATIONAL STRUCTURE OF INA, d.d.





INA - Group comprises of:



Oil & Gas Exploration and production  
Refining and Wholesale  
Rijeka and Sisak Fuel Refineries  
Rijeka Lubricant Refinery  
Retail - 407 petrol stations in our  
ownership and 18 on lease in  
Croatia, and 47 petrol stations in  
neighbouring countries



Provision of drilling, workover and  
other services associated with  
onshore and offshore exploration  
and production



Provision of technical services in  
construction of pipelines, processing  
plants and maintenance thereof



Production and marketing of  
lubricants



LPG production and marketing



Management of tourist resorts  
owned by INA



Car and boat rentals



Health protection and safety

## 2.4

INA's head office is located in Zagreb, Avenija V. Holjevca 10, Croatia.

## 2.5

INA exploration and production operations are mainly focused onshore and offshore Croatia, with a growing presence in countries of the Middle East, and northern and western Africa. Refining is located in Croatia, while INA petrol stations are spread throughout Croatia and the neighbouring countries.

## 2.6 OWNERSHIP STRUCTURE

	BY NUMBER OF SHARES
Government of Croatia	5,180,367 (51.8%)
MOL	2,500,001 (25% + 1)
War veterans	700,000 (7%)
Zagrebačka banka d.d./Citibank N.A.	368,725 (3.7%)
Publicly distributed shares (small investors) - (less than 2% )	1,250,907 (12.5%)
<b>TOTAL</b>	<b>10,000,000</b>

## 2.7 INA OPERATIONS

- Oil & gas exploration and production primarily onshore and offshore Croatia, as well as abroad in Angola, Egypt, Syria, and Namibia;
- Import of natural gas from Russia, and wholesale of imported and domestic natural gas to industrial consumers and local distributors;
- Oil refining in the Rijeka and Sisak refineries, lubricant production in the Rijeka and Zagreb lubricant plants;
- Fuel and associated products retail through a chain of 407 INA-owned petrol stations, 18 subsidiary-owned petrol stations in Croatia, and 47 petrol stations in the neighbouring countries;
- Crude oil and oil products trading through a network of international subsidiary companies and branches, mainly in London, Ljubljana, Sarajevo, and Moscow;

- Provision of drilling, workover and other services associated with onshore and offshore exploration and production through our subsidiary company Crosco d.o.o.

## 2.8

On December 31, 2006, INA Group had 15,875 employees, while INA-d.d. had 10,183 employees.

In 2006, INA Group achieved a sales revenue of HRK 23.4 billion (an increase of 11% compared to 2005); however, the core business profit of HRK 974 million or US\$ 167 million was 30% less than in 2005. The reduced core business profit (HRK 436 million less than in 2005) is mainly attributed to relatively low margins, as well as unfavourable refining efficiency and quality due to the fact that INA refineries have not yet been modernized.

	<b>EQUITY AND LIABILITIES</b>	<b>m HRK</b>
<b>A.1.</b>	<b>CAPITAL AND RESERVES</b>	<b>11,569</b>
	Equity attributable to equity holders of the parent	11,569
	Registered capital	9,000
	Reserves	2,018
	Retained earnings or loss brought forward	551
<b>B.1.</b>	<b>NON-CURRENT LIABILITIES</b>	<b>2,695</b>
	Long-term loans	1,372
	Other non-current liabilities	153
	Provisions	1,170
<b>C.1.</b>	<b>CURRENT LIABILITIES</b>	<b>6,029</b>
	Bank loans and securities	666
	Intercompany payables	2,541
	Trade payables	1,935
	Taxes and contributions	479
	Other current liabilities	261
	Provisions	148
	<b>EQUITY AND LIABILITIES - TOTAL (A.1+B.1+C.1)</b>	<b>20,293</b>
<b>INA d.d. TOTAL EQUITY &amp; LIABILITIES STRUCTURE (AS OF DEC 31, 2006)</b>		

INA sales in 2006:

- 216,000 tons of crude
- 4,816,000 tons of oil products
- 2,739,000,000 m3 of natural gas



## 2.9

In the Retail Development and Maintenance Sector, changes in 2006 included:

- Construction and opening of the Bačve petrol station (Dec 18, 2006);
- Reconstruction of petrol stations Slavonski Brod-Osječka (Oct 31, 2006), and Novalja-Špital (Feb 02, 2007);
- Opening of the Spačva-Lubanjski petrol station (May 03, 2007);
- Petrol stations shut down due to reconstruction, started with work in 2007:
  - Kneževi Vinogradi
  - Đakovo-Nazorova
  - Labin
  - Sisak-Zagrebačka
  - Koška
- Partial reconstruction:
  - Starigrad-Paklenica - in operation since Feb 06, 2007
  - Pag - in operation since Apr 13, 2007

- Reconstruction - foreign network
  - Tuzla-Centre
  - Mostar-Sutina

With implementation of the storage facility optimization project, in 2006 four reserves storages of the Exploration and Production Division, 14 storages of the Logistics Sector, and 17 storages of the Retail Sector were closed down.

## 2.10 AWARDS RECEIVED IN 2006

- At the International Oil & Gas and Environment Exhibition held in Damascus in April 2006, INA was awarded 3rd prize for promotional appearance for the second time. The exhibit area, manner of communication, and overall impression were taken into account.
- The National Tourist Board presented their 2006 awards for the tidiest and most attractive petrol stations: The Green Flower went to INA's Koprivnica petrol station, while the Blue Flower was awarded to our Ražine-west petrol station in Šibenik.



- Our attendant at the Makarska-Ratac petrol station, Ivica Kovačević, was pronounced Worker of the Year. With this award, for the fourth time in a row INA's workers have been selected among the best attendants.
- On October 4, 2006, the National Fire-fighters' Association awarded INA a Letter of Recognition for sponsoring the Fire-fighters' World Games, hosted by the Croatian town of Varaždin - cradle of Croatian fire-fighting.
- At the Adriatic Car Show in Budva, held October 13, 2006, where the best exhibitors were awarded the Expo Trophy, INA won second prize for its attractive exhibit area and presentation of its products and services.
- In celebration of the Town of Ilok, on October 23, 2006, the Town Council awarded INA's Exploration and Production Division a certificate of recognition for its contribution to the development of Ilok.
- At the 31st Innovations Salon INOVA 2006, held in November 2006 in Rijeka, INA's inventors won 12 gold medals, 2 silver medals, and one bronze medal.
- The Zagreb Technical Culture Association awarded INA a jubilee plaque and certificate of recognition, celebrating 60 years of technical culture and 50 years of innovation in Zagreb.
- A special award was given to Diana Katić, executive assistant to the Director of Commercial Affairs Sector, for being one of the best executive assistants at the ceremony held in November 2006, under the organisation of NAVO d.o.o. company and in cooperation with the Croatian Executive Assistant Association.

**hrvatske inovacije na brussels eureka**

Stvarati - znači dvaput živjeti.  
/A. Camus, "Mit o Sizifu"/



**posebno  
priznanje**

**INA D.D. ZAGREB**

za poticanje kreativnosti  
i promicanje  
najviših hrvatskih dostignuća  
na svjetskoj izložbi izuma,  
istraživanja  
i novih tehnologija  
BRUSSELS EUREKA



Karlo Šoštarić  
predstavnik Brussels Eureka  
za Republiku Hrvatsku

Bruxelles - Zagreb  
siječanj 2005.

**C E R T I F I C A T E O F R E C O G N I T I O N**

awarded to

*INA-Industrija nafte d.d.*

by Deloitte & Touche Ltd.

for submitting an application to the  
**2001 Central European Environmental Reporting Award.**

Deloitte & Touche Ltd. has created this award with the aim of acknowledging the achievements of companies operating in Central Europe that applied for the CEERA in the year 2001. This award is being granted for the first time to recognize not only specific achievements in the area of environmental communication, but also to acknowledge and encourage Central European companies to provide environmental information to the public. The award has been granted by a team of independent international experts.



*András Simor*  
**András Simor**  
Chairman & CEO

**Deloitte  
& Touche**

*Róbert Reiniger*  
**Róbert Reiniger**  
Partner

Budapest, 4 October 2001.



Year	Award
1999	<b>The Golden Plaque for Environmental Protection</b> - On June 5, 1999, in celebration of World Environment Day, INA was awarded this highest state award for its achievements in environmental protection, in competition with eight companies from various branches of industry, transportation and energy supply. The Award Committee comprised the Head of the State Environmental Agency, representatives of several ministries, the Parliament Committee for Physical Planning and Environmental Protection, the ECE Environmental Centre, representatives of companies dealing with environmental protection, and specialised journalists.
2001	<b>The 2001 Green Flower</b> - The National Tourism Board, within the environmental and educational campaign "I Love Croatia", awarded INA for the most tidiest petrol station in the continental part of Croatia. <b>Deloitte &amp; Touche awarded INA the Certificate of Recognition for submitting an application to the 2001 Central European Environmental Reporting Award</b> in October 2001 at the 2nd Regional Conference of the Business Council for Sustainable Development in Budapest, where INA participated by invitation of the Croatian Business Council for Sustainable Development.
2002	<b>Certificate of Recognition for Achievements in Waste Management - Production Companies Produce Waste</b> was awarded to INA-Exploration and Production, in celebration of the 2002 World Environment Day, by the Ministry of Environmental Protection and Physical Planning.
2003	<b>Recognition for the Promotion of Occupational Safety</b> - On December 12, 2003, the Croatian Association for the Promotion of Occupational Safety, awarded INA a Certificate of Recognition for its long-term membership and outstanding contribution in promoting occupational health and safety, as well as for its active co-operation with the Association.
2004	<b>Charter for promoting and applying quality in Croatian economy</b> - INA was awarded this charter by the Croatian Society for Quality, for emphasizing the significance of corporate social responsibility, interacting with the social environment transparently, and focusing on sustainable development, respect for customer opinion, rising the quality of goods and services, and for our commitment to the wellbeing of our employees and the society at large.
2004	At the First Consumer Assembly, held March 15-18, 2004 in Umag, INA (and its Retail Sector) was awarded a <b>Certificate of Recognition "for a company increasingly dedicated to its consumers, offering them a most diverse assortment of goods and services at petrol stations"</b> . Following a several-month survey and gathering of consumer evaluations from all over Croatia, the certificate was awarded by the National Centre for Educating and Informing Consumers, and the Consumer Protection Journal.
<b>AWARDS AND RECOGNITION FOR SOCIALLY RESPONSIBLE PERFORMANCE (1999-2005)</b>	



Year	Award
2004	<b>Regional Award for the Largest Privatisation</b> - Investment Compact, an OECD initiative for the promotion of foreign investments in countries of Southeast Europe, on July 15, 2004, granted INA the Regional Award for the largest privatisation. The jurors of the traditional International Investor of the Year event, selected the sale of 25 plus one share of INA to Hungarian MOL as the most significant privatisation.
2005	<b>The “Hrvoje Požar” Annual Award</b> - On July 5, 2005, the Croatian Energy Association “Hrvoje Požar” granted their annual awards to scientists and experts, as well as scholarships to the best junior energy experts (students). The award winner, was Prof. Mirko Zelić, Academician, INA-Board member and Executive Director of Exploration and Production, one of Croatia’s foremost energy experts.
2005	<b>INA received the Scroll of Honor from the Croatian National Committee for EXPO 2005</b> , for its golden sponsorship in helping Croatia participate in this world exhibition held March - September in Aichi, Japan, where almost a million people caught a glimpse of Croatia through the symbolic theme “A Drop of Water: A Grain of Salt”.
2005	By decision of the Croatian Information Technology Society, INA was awarded the <b>Crystal Globe</b> for its contribution to the development of computer literacy and for introducing ECDL to Croatia.
2005	As part of the annual “I Love Croatia” campaign, the Croatian National Tourist Board awarded the <b>Green Flower</b> , among other, for the best petrol station, and for the third year in a row, first prize went to INA’s new petrol station Svačićeva in Slavonski Brod. In a separate theme “People - The Key to Success”, aimed at improving the level of hospitality and creating a welcoming atmosphere for tourists, our employee, Josip Dragun from Vinkovci, was pronounced the best petrol-station attendant.
2005	The Tourist Board and City of Zadar grant an annual award for contributing to the tourist season, one category being the tidiness of petrol stations. In 2005, INA’s petrol station in the suburb of Voštarnica was awarded the <b>“Smiling Sun”</b> as the tidiest and best maintained.
2005	<b>The International Stevie Awards</b> - In New York on May 19, 2005, the film “INA at Olymp” won the International Business Award in the sub-category of documentary/information films or videos. As a socially responsible company, in 2004 INA was the golden sponsor of the Croatian Olympic Team. In honour of the Games, we organised a prize competition for our customers, ten lucky winners of which were paid a trip to the Olympic Games in Athens. The authors of the 25-minute documentary were Ferdo Buva, an employee of the INA Corporate Communications Sector, and Mladen Dizdar, a young Croatian film director from Osijek. The Stevie Awards recognize outstanding performances at the workplace worldwide.

#### AWARDS AND RECOGNITION FOR SOCIALLY RESPONSIBLE PERFORMANCE (1999-2005)

## 3. REPORT PARAMETERS

### REPORT PROFILE

#### 3.1

This report includes information for the calendar year of 2006.

#### 3.2

Our previous CSR and HSE Reports were last published in October 2006, and included information for the calendar year of 2005.

#### 3.3

INA's first environmental report covered a two-year period (1996 and 1997). Since then we have been reporting annually on our environmental activities, while our Health, Safety and Environment Report started in 2002, is issued annually.

We published our first CSR report compliant to the GRI guidelines in 2004 covering the calendar year of 2003, and have since then been reporting on our CSR each year using the same methodology.

#### 3.4

For additional information, contact:

INA, d.d., Zagreb, Avenija Većeslava Holjevca 10, Croatia  
[www.ina.hr](http://www.ina.hr)

Corporate Communications Sector  
Phone: 6450 406, Fax: 6452 406  
E-mail: [glasnogovornik@ina.hr](mailto:glasnogovornik@ina.hr)

Sustainable Development and Corporate Social Responsibility  
Work Group: Svea Švel-Cerovečki, DSc., Head

### REPORT SCOPE AND BOUNDARY

#### 3.5

Our Sustainability Report includes the full range of economic, environmental, and social impacts of INA on its stakeholders. We expect that the Report also be useful to our employees, owners, management, buyers, and communities.

#### 3.6

The report includes information concerning our business activities, exploration and production, refining and wholesale, retail, and corporate services function.

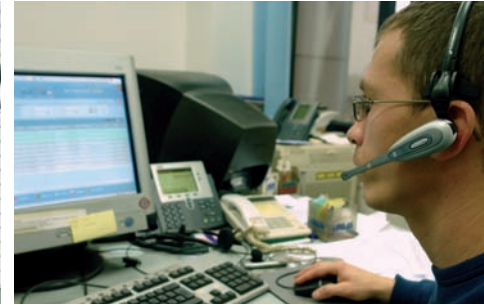
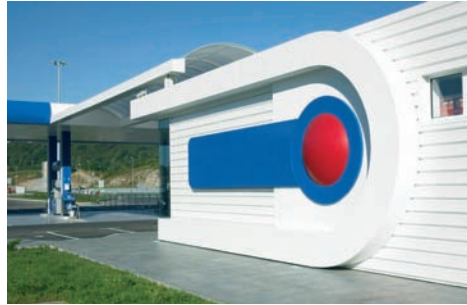
#### 3.8

The basis of all INA subsidiary reports, individually and at the INA-Group level, are financial statements, such as the Profit and Loss Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statements, Notes to Financial Statements, auditor reports, business plans. Joint-ventures, as well as other companies in mixed ownership also require documents such as production sharing agreements, social agreements, special agreements, and letters of understanding.

<b>Companies established (outsourced) by INA</b>	<b>Year</b>	<b>Basic document in compliance with the Trade Companies Act</b>
ITR d.o.o. Zagreb	1995	Declaration on the Establishment of a Limited Liability Company
Croscos d.o.o. Zagreb	1996	Declaration on the Establishment of a Limited Liability Company
Hostin d.o.o. Zagreb	1996	Declaration on the Establishment of a Limited Liability Company
Infocentar d.o.o. Zagreb	1996	Declaration on the Establishment of a Limited Liability Company
Proplin d.o.o. Zagreb	2001	Declaration on the Establishment of a Limited Liability Company
STSI d.o.o. Zagreb	2001	Declaration on the Establishment of a Limited Liability Company
Maziva-Zagreb d.o.o. Zagreb	2002	Declaration on the Establishment of a Limited Liability Company
Sinaco d.o.o. Sisak	2003	Declaration on the Establishment of a Limited Liability Company

<b>Joint-ventures companies</b>	<b>Year</b>	<b>Basic document in compliance with the Trade Companies Act</b>
INAGIP d.o.o. Zagreb (50%)	1996	Social Agreement Establishing INAGIP d.o.o.
CROPLIN d.o.o. Zagreb (50%)	1998	Social Agreement Establishing CROPLIN d.o.o.
ED-INA d.o.o. Zagreb (50%)	2002	Social Agreement Establishing a Limited Liability Company
POLYBIT d.o.o. Rijeka (50%)	2003	Social Agreement Establishing a Limited Liability Company

<b>INA Branches and Representative Offices</b>			
<b>Branches</b>	<b>Year</b>	<b>Representative Offices</b>	<b>Year</b>
Damascus, Syria	1997	Luanda, Angola	1982
Cairo, Egypt	1997	Moscow, Russia	1992
Windhoek, Namibia	2004	Budapest, Hungary	1989
Naftni derivati Priština, Kosovo	2004	Teheran, Iran	
Tirana, Albania			



### 3.9

As required by the Accounting Act of the Republic of Croatia, our financial reports are prepared in compliance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), and give a true and fair view of INA's financial state and performance. INA applies all the relevant preconditions, techniques, meth-

ods and estimates set in the International Accounting Standards. An independent auditor confirms the accuracy and objectivity of the financial reports.

Pollutant emissions into the environment are determined by measurement, emission factors or on the basis of the material balance.

### 3.12 GRI CONTENT INDEX

#### GRI Indicator

	Location
Strategy and Analysis	1.1 - 1.2
Organizational Profile	2.1 - 2.10
Report Parameters	3.1 - 3.13
Governance, Commitments, and Engagement	4.1 - 4.17

#### Economic

Economic Performance	
EC1	5.1
EC2	5.2
EC3	5.3
EC4	5.4
Market Presence	
EC6	5.5
EC7	Inapplicable
Indirect Economic Impacts	
EC8	5.6

#### Environmental

Materials	
EN1	6.1
EN2	6.2
Energy	
EN3	6.3
EN4	6.4
EN6	6.5, 6.6
Water	
EN8	6.7
EN9	6.8

#### Biodiversity

EN11	6.9, 6.11
EN12	6.10, 6.12
EN13	6.9
EN14	6.13
EN15	6.14
Emissions, Effluents, Waste	
EN16	6.15
EN18	6.16
EN19	6.17
EN20	6.18
EN21	6.19
EN22	6.20
EN23	6.21
EN24	6.22
EN25	6.23
Products and Services	
EN26	6.24
Compliance	
EN28	6.25
Overall	
EN30	6.26

#### Social Performance

##### Labour Practices and Decent Work

Employment	
LA1	7.1
LA2	7.2
LA3	7.3
Labour / Management Relations	
LA4	7.4
Occupational Health and Safety	

LA6	<b>7.5</b>
LA7	<b>7.6</b>
LA8	<b>7.7</b>
LA9	<b>7.8</b>
Training and Education	
LA10	<b>7.9</b>
LA11	<b>7.10</b>
LA12	<b>7.11</b>
Diversity and Equal Opportunity	
LA13	<b>7.12</b>
LA14	<b>7.13</b>

### **Human Rights**

Investment and Procurement Practices	
Non-Discrimination	
HR4	<b>7.14</b>
Freedom of Association and Collective Bargaining	
HR5	<b>7.15</b>
Child Labour	
HR6	<b>7.16</b>
Forced and Compulsory Labour	
HR7	<b>7.17</b>

### **3.13**

Since 2003, INA has been informing its stakeholders using the GRI reporting methodology. Our CSR Reports have been reviewed independently by the Croatian Chamber of Economy, as well as by a representative of the Institute of Economics and member of the EU Accession Negotiations Work Group for the Enterprise and Industrial Policy Chapter.

Indigenous Rights	
HR9	<b>Inapplicable</b>

### **Society**

Corruption	
SO3	<b>7.18</b>
Public Policy	
SO5	<b>7.19</b>

### **Product Responsibility**

Customer Health and Safety	
PR2	<b>7.20</b>
Products and Service Labelling	
PR5	<b>7.21</b>
Marketing Communications	
PR6	<b>7.22</b>
PR7	<b>7.23</b>
Customer Privacy	
PR8	<b>7.23</b>

This 2006 Sustainability Report has been reviewed by the EU Accession Negotiations member of the Working Group for the Enterprise and Industrial Policy Chapter.

## 4. GOVERNANCE, COMMITMENTS, ENGAGEMENT

### GOVERNANCE

#### 4.1

The governance structure of INA comprises the Supervisory Board, the Management Board, and the General Assembly, which together represent the three bodies as required by INA's Articles of Association and the Trade Companies Act.

The Supervisory Board's mandate includes nominating or recalling Management Board members, as well as supervising or recalling operations of the Management Board. It comprises six members: four representatives of Croatia, two MOL representatives, while the seventh member (INA employee representative) has not yet been nominated.

The Management Board manages INA's business, and is authorized to conclude business agreements on behalf of the company. It reports to the Supervisory Board on the company's economic, social, and environmental performance, its profits and revenue, issues pertaining to future operation, as well as other issues important for INA. It comprises seven members, five of which are proposed by the Croatian Government as the majority owner, and two by the MOL Management.

#### 4.2

The Management Board and the Supervisory Board are two distinct bodies having separate managerial and supervisory functions.

#### 4.3

Supervisory Board members are not members of INA's executive structure.

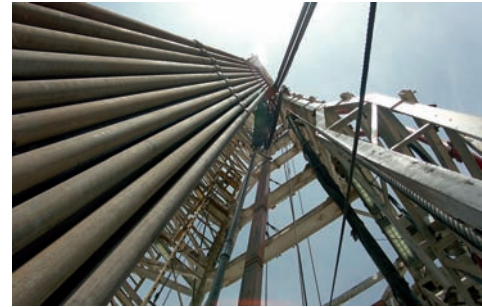
#### 4.4

The Sustainable Development and Corporate Social Responsibility Work Group provides recommendations or directions to the Human Resources and Nominations Committee and the Finance and Investments Committee for approval before submitting them to the Management Board. In 2006, the procedure for issuing the INA Code of Business Conduct and Ethics was initiated through this mechanism.

INA employees participate in the decision-making process about issues pertaining to their economic and social rights and interests, in the manner and under terms as defined by the Labour Act, our Collective Agreement and Labour Regulations.

Since INA lacks an established workers' body, this function is discharged by a Union representative who assumes all the rights and obligations of a workers' council, and who is nominated alternately from one of the three unions every four months. Since the beginning of collective bargaining at INA (1996), the provisions of the Collective Agreement practically apply to all INA employees regardless of their union membership, with the exception of those having concluded special contracts with INA Management. During the effective period of the Collective Agreement, a committee for the interpretation of the Collective Agreement is in place, comprising three employer and three union representatives. The committee passes decisions by consensus, and meets as necessary (every four months on average). The key challenge to this committee is the effective implementation of its decisions at lower organisational levels. It is therefore suggested that INA officials be systematically informed about this committee's mandate and their duty to implement its decisions.





#### 4.5

Managerial contracts are concluded between INA and the president and members of the Management Board, the terms of which are determined by the Supervisory Board. The Management Board's mandate includes identifying the company's development strategy, business policy, and measures for the implementation thereof, negotiating with the workers' unions about the rights, obligations, and material status of employees, as well as concluding the collective agreement. It also decides upon other matters for which it is authorized by law or the Articles of Association, as well as those matters for which any other managerial body of INA is not authorized by law or the Articles of Association.

#### 4.6

According to INA's Articles of Association, Board members are required to disclose to the Board the nature of any interest they or any related persons might have in proposed or existent arrangements with INA.

#### 4.7

The processes for determining the qualifications and expertise of the members of the highest governance body for guiding the company's strategy on economic, environmental and social matters are regulated by law and internal documents.

#### 4.8

##### MISSION

INA is a vertically integrated oil corporation, and plays a leading role in the oil and gas markets of Southeast Europe. We are committed to constantly improving our business operations, as well as perfecting the efficiency and quality of our products and services.

##### VISION

INA's vision is to be a reputable and desirable partner known for excellent products and services; a brand built on an honest, fair and interest-protecting relationship with our customers, partners and employees together with a focus on creating value for our shareholders.

##### CORE VALUES

In order to fulfil our mission and achieve our vision, it is essential that we commit to the expectations and goals of all our stakeholders - customers, shareholders, employees and communities - whilst not impairing our natural environment. Therefore, our core values are as follows:

- Achieve the profitability and create the values expected from our shareholders and investors.
- Fulfil the interests and expectations of our customers, and gain their trust and long-term loyalty.

- Maintain awareness of the INA brand through close cooperation with communities, respecting their cultural, national and regional characteristics.
- Acknowledge our employees' needs, interests, and abilities through an incentive-based reward and promotion system, since they are an indispensable creative resource, overall support, and foundation for the attainment of our corporate goals.
- Protect the environment, as well as ensure the health and safety of our employees and communities.

INA's Code of Business Conduct and Ethics came into effect in January 2007.

The internally developed mission statement, core values, and Code of Business Conduct and Ethics are applied in all parts of INA, and comply to internationally agreed standards.

#### 4.9

Supervision over the company's identification and management of economic, environmental, and social performance is performed once a year by the highest governance body in the form of a Management Board's Evaluation.

#### 4.10

The highest governance body of INA is evaluated twice a year by an independent evaluation company. Our financial business transactions are reviewed regularly by external auditors.

### COMMITMENTS TO EXTERNAL INITIATIVES

#### 4.11

The precautionary approach introduced in Article 15 of Agenda 21 is incorporated into all internal business management doc-

uments. Health, safety, and environmental risk management procedures are broadly elaborated.

#### 4.12

Although the first quality management documents appeared in the 1950s, certain areas of INA's business in direct contact with customers and product marketing attained ISO 9001 certificates during the 1990s. The first such certificate was awarded to Maziva Rijeka in 1995.

The year 2003 was the turning point in the introduction of a business management system based on corporate regulations, laws, rules of profession, and requirements of ISO 9001:2000, ISO 14001:1996 standards and OHSAS 18001:1999 specifications.

The Health, Safety and Environment Management system in compliance with ISO 14001 standards, and OHSAS 18001 specifications was also introduced, confirming the highly developed awareness of our management and employees. Our concern for the quality of our products, and keeping pace with global trends - starting from quality control, quality assurance to quality management - is a process under constant improvement. Our efforts in the field of quality have resulted in a series of certificates and accreditations. In the aim to improve the quality of our services and confirm our own competence in oil and oil product analysis, over 100 test methods in all INA laboratories have been accredited under ISO 17025, and their number is rising.

The notion of quality is associated not only with our products and efficient performance, but with the life quality of our employees and the society in general. Quality improvement at INA is a permanent process reflecting our aspirations toward business excellence.

In 2004, we continued to develop our integrated quality management system using the process approach in order to change from

organisational management to management by strategy and objectives, and measurement of process effectiveness. The goals of each process reflect INA's strategic goals lowered to every relevant level and function, and together with process performance measurement, also represent areas of permanent improvement.

We have set the target to apply the ISO 9001 standard through an integrated system across INA, including not only the basic processes but also every process that supports our core activities. The objective of this strategic commitment to quality control is to be distinguished as a European oil company. Thus, in November 2005, INA attained the ISO 9001:2000 certificate.

INA is a voluntary member of the Corporate Social Responsibility Association of the Croatian Chamber of Economy since its foundation in 2006. Since 2003, INA has been voluntarily informing its stakeholders through CSR reports prepared in accordance with the Global Reporting Initiative methodology.

In 2007, INA became member of Global Compact, the world's largest corporate responsibility initiative, launched by the UN at the World Economic Forum in 2000.

Provisions of Croatian legislation as well as those of international conventions ratified by the Republic of Croatia are incorporated into our business.

#### 4.13

INA participates in public and business policy through business associations in Croatia and abroad. We are member to national and regional associations of Mediterranean states dealing in energy and environmental protection, while national associations give us the opportunity to act globally.

INA is member of the following associations:

- Observatore Mediterranean de l'Energie (OME)
- Croatian Energy Society (Croatian abbreviation HED)
- Croatian Chamber of Commerce (Croatian abbreviation HGK)
- Croatian Gas Expert Association (Croatian abbreviation HSUP)
- Croatian Quality Society (Croatian abbreviation HDK)
- Croatian Society of Metrology (Croatian abbreviation HMD)

INA is a permanent participant of the World Petroleum Congress and its National Committee, as well as the World Energy Conference.

Although not a member, INA successfully co-operates with the Croatian Business Council for Sustainable Development (member of the World Business Council for Sustainable Development), and with the American Chamber of Commerce in Croatia. Through the Croatian Gas Experts Association, we are an indirect member of the International Gas Union (IGU).

Our experts participate actively in the work of the Croatian Standards Institute and the State Office for Metrology as:

- members in the Administrative Board of the Croatian Standards Institute;
- chair and secretary of the TC 28 Petroleum products and lubricants;
- chair of the TC 506 Materials, equipment and structures for petroleum, and natural gas industries;
- members or participants in some thirty other technical committees.

INA employees are also members of national and international expert associations and active participants in congresses, symposia, workshops, and other gatherings worldwide.



Through these associations, our employees participate in the development of policies and legislation.

## STAKEHOLDER ENGAGEMENT

### 4.14 STAKEHOLDERS

#### END CONSUMERS

Individuals, companies, institutions, and other establishments all are consumers of INA products - fuel, lubricants, liquefied petroleum gas, and consumer goods.

In the effort to improve product quality and market appearance, as well as create partnership and friendly interaction with our consumers, INA undertakes numerous actions, including various forms of communication with the market and the public, co-operation with and direct participation in consumer-protection bodies.

#### BUYERS

Major INA's buyers are INA retail network and other oil traders, major entities such as HŽ (national railway company), the Croatian Military Forces, HEP (national electricity company), schools, hospitals, child-care centres, haulers, and others.

#### SUPPLIERS

Our supplier network comprises crude oil and gas importers, our oil

refineries, our E&P Division as our natural gas supplier, as well as suppliers of lubricants, liquefied petroleum gas, consumer and other goods and services necessary for our operation, whereby Croatian companies, especially INA-Group members, have priority.

#### OWNERS

INA's majority owner is the Croatian Government (51.8%), and since 2003 Hungarian MOL owns 25% plus one share of INA. The ownership structure is reflected in the management, comprising five Croatian representatives in the Management Board: President of the Management Board, Director of the Corporate Processes Function, and three executive directors; and two MOL representatives: Executive Director of the Finance Function and Director of the Corporate Services Function. The government representative in INA's General Assembly is the Minister of Economy, while MOL appoints its own representative. The Supervisory Board comprises four Croatian government representatives, one INA employee representative, and two MOL representatives.

By government decision issued in October 2005 and passed by the Croatian Parliament, 7% of government-owned INA shares were transferred to the Croatian War Veterans Fund.

At the end of 2006, the second phase of INA's privatization was completed, whereby small investors were distributed 12.5% shares,

and Zagrebačka banka/City Bank 3.7% shares. Our privatization will continue in 2007 with the sale of our shares to our employees.

#### **MANAGEMENT BOARD**

Pursuant to the provisions of INA's Articles of Association, the Management Board comprises seven members, who are appointed or recalled by the Supervisory Board.

#### **EMPLOYEES**

On December 31, 2006, INA had a total of 10,183 employees, of which 7,654 men and 2,529 women. A majority of the employees (9,601) are in permanent employment, while 582 are employed on a temporary basis.

#### **TRADE UNIONS**

At INA, there are three active Trade Unions: the Workers' Union of INA and INA Zagreb Subsidiaries (INAŠ), the INA and Oil Economy Workers' Union (SING), and the Chemical, Energy, Mine, and General Workers' Union (EKN). All three unions participate in the collective bargaining process and monitor implementation of the Collective Agreement, which covers all union members.

#### **BUSINESS ORGANISATIONS**

With regard to our economic, social, and every other aspect of life in Croatia, INA has a wide range of business partners, including:

- State institutions - Croatian Government; Ministry of Economy, Labour, and Entrepreneurship; Ministry of Sea, Tourism, Transport and Development; Ministry of Internal Affairs; Ministry of Environmental Protection, Physical Planning and Construction; Ministry of Culture; State Inspectorate; and the Croatian Energy Regulatory Agency;

- Banks;
- Major entities - HEP (national electricity distributor), HŽ (national railways), Hrvatske ceste (road construction and maintenance), the Croatian Military Forces, Croatia Airlines, and others;
- Numerous suppliers of consumer goods and services - CROSCO, PROPLIN, LEDO, Coca-Cola, STSI, Kraš, Frank, and others;
- Goods and services consumers, beneficiaries of sponsorships and donations, and partners in joint activities, such as granting scholarships to top students.

#### **CENTRAL AUTHORITIES**

Since the majority owner of INA is the government, the Supervisory Board comprises government representatives. INA is also permanently in contact with all government institutions regarding the implementation of business policies and activities in all segments, especially with the Ministry of Economy, Labour and Entrepreneurship, and the Ministry of Environmental Protection, Physical Planning and Construction.

#### **LOCAL AUTHORITIES**

INA's operations spread throughout Croatia, imposing the need for permanent co-operation with representatives of local authorities: from county and town administrations to regional inspectorates, police departments and other institutions.

#### **NON-GOVERNMENTAL ORGANISATIONS**

The nature of our business implies co-operation with numerous and diverse non-governmental organisations, such as environmental, consumer, and other civil associations.

## COMMUNITIES

INA is also committed to developing and promoting co-operation with local communities throughout Croatia, most frequently by granting monetary or in-kind donations (books, computers, vehicles, medical equipment, fuel) or by rendering various services such as in the construction of infrastructure.

## CREDITORS

The largest banks supporting INA with long- and short-term loans, and with whom, in addition to a few other smaller banks, INA has been successfully collaborating for many years, are Privredna banka Zagreb, Raiffeisenbank Austria d.d. Zagreb, Zagrebačka banka, HVB Splitska banka, OTP Banka Hrvatska d.d. Zadar, Hrvatska poštanska banka d.d. Zagreb, European Bank for Reconstruction and Development (EBRD), Mizuho Corp. Ratb. Bank, Citibank N.A., BNP Paribas, and ING Bank N.V.

### 4.15

Stakeholders are selected on the basis of their interest and influence. They are identified as internal/external individuals or groups having any legitimate interest in the company.

### 4.16

#### Stakeholder

##### End Consumers

#### Type of communication

Annual satisfaction survey  
Web page  
INA Toll-free Phone  
INA representative in the  
Consumer Association

##### Buyers

Consultations  
Contracts  
INA Toll-free Phone  
Web page  
Focus group  
Surveys

## Suppliers

## Owners

## Executive managers

## Employees

Contracts  
Correspondence  
Supervisory Board  
General Assembly  
Management Board, meetings  
Daily meetings  
Mail  
Work groups  
Occupational safety committees  
Intranet  
Internal newspapers  
Internal documents

## Trade Unions

## Business Organisations

## Central Authorities

## Local Authorities

## Non-governmental Organisations

## Communities

## Creditors

Meetings, Annual collective bargaining  
Regular meetings of member organisations  
Mail  
Meetings  
Correspondence  
Meetings  
Consultations  
Meetings  
Donations  
Sponsorships  
Frequent communication  
Donations  
Agreements  
Reports

### 4.17

The key topics and concerns raised through stakeholder engagement have been published in INA-Glasnik.

#### “COLLECTIVE AGREEMENT”

Following almost six months of negotiations, on April 12, 2006,



the INA Board and heads of the three unions signed a new collective agreement that, among other, provides improved benefits for workers. Both negotiating parties redefined their initial standpoints and came to a mutually acceptable agreement.

#### **“SISAK REFINERY AIR QUALITY”**

A “Rehabilitation Program for Reduction of Benzene Emissions/Immissions from the INA Sisak Refinery” was prepared. Pursuant to the government decree on critical levels of air pollution it was proposed that sirens be activated in the town of Sisak in future when the metering station records indicate higher concentrations of hydrogen sulphide over a longer period. Since the desulphurization plant is due for completion in 2007, it is highly unlikely that the alarms will be sounded even once.

The rehabilitation program involves installation of new technology, enabling production of European quality fuels, and elimination of harmful effects on human health and the environment.

#### **“HIGHER GAS PRICES PROPOSED FOR ELIGIBLE CUSTOMERS”**

According to the agreement in principle reached between the Croatian Government and INA, the price of gas for tariff customers, thereby including households, remains at the current level throughout the next year. However, eligible customers like HEP, Petrokemija and Pliva will have to pay a somewhat higher price, which will provide INA an advantage in future market relations in regard to gas pricing.

#### **“RECAPITALIZATION OF ENERGOPETROL”**

In Sarajevo on September 8, 2006, the Government of the B&H Federation, the INA-MOL consortium, and Energopetrol, signed an agreement on the recapitalization of Energopetrol. Thus, INA-MOL acquired a 67-percent share of the company, which includes 65 petrol stations and two office buildings. INA-MOL consortium is required to invest 150 million convertible marks into

Energopetrol over the next three years, as well as provide additional investments for keeping all its employees and settling debts from the previous two years. The act of recapitalization guarantees Energopetrol’s revival into a modern and highly competitive company capable of offering high-quality products.

#### **SOURCES:**

Articles of Association of INA Zagreb, 2003  
Labour Regulations, INA, 2004  
Mezzoorganization of the Strategy & Corporate Business Development Sector, INA, 2004  
Basic organizational standards of INA d.d., INA, 2007  
Decision-making Authorizations List, INA 2005  
INA Supervisory Board Rules of Procedure, INA, 2003  
INA Management Board Rules of Procedure, INA, 2005  
Corporate Strategy 2006-2015, INA, December 2005  
INA 2005 Annual Report, INA, 2006  
INA Prospectus, Merrill Lynch International, 2006  
Code of Business Conduct and Ethics, INA, 2007  
Communication in Environmental Protection, INA, December, 2001.  
Accounting Act, Official Gazette, 146/2005  
Ekonomске vijesti No. 3449, Sept/Oct 2006  
INA-Glasnik, No. 1873, April 25, 2006  
INA-Glasnik, No. 1883, Oct 3, 2006  
INA-Glasnik, No. 1884, Oct 17, 2006  
INA-Glasnik, No. 1885, Oct 31, 2006  
INA-Glasnik, No. 1886, Nov 14, 2006  
INA-Glasnik, No. 1887, Nov 28, 2006  
INA-Glasnik, No. 1888, Dec 19, 2006  
INA-Glasnik, No. 1894, Mar 27, 2007  
[www.globalreporting.org](http://www.globalreporting.org)  
[www.ina.hr](http://www.ina.hr)  
Poslovni dnevnik, May 31, 2007



**Economic Aspect**



# ECONOMIC ASPECT

INA is an influential player in the oil, gas and products market in Croatia and the neighbouring countries, focused on creating greater value by constantly improving our business operations, as well as perfecting the efficiency and quality of our products and services.

The primary role of INA is to supply the Republic of Croatia and partly the regional markets with energy. Over eighty percent (83.1%) of energy produced in Croatia is derived from oil and gas.

In the broader economic context, INA's financial results represent a significant contribution to domestic economy and national income, while our business relations with economic and state entities also greatly influence the status of domestic economy. INA also plays an important economic role when it comes to employment, providing a secure living to some ten thousand citizens of Croatia.

Our corporate business policy reflecting our overall economic aspirations are publicly available on the web at [www.ina.hr](http://www.ina.hr).

Among INA's numerous business achievements in 2006, six of the most significant were as follows:

- INA shares sold - In the second phase of its privatization by public bid, INA offered 15-17% of its shares to the citizens of Croatia and other legal persons. The more favourable

purchasing terms for citizens enabled them to become a significant shareholder. Since listed on the Zagreb and London Stock Exchanges, INA shares have been achieving notable daily turnover with constant share price growth.

- Refinery modernization begins - Modernization of our refineries is one of our three key projects essential for INA's survival in light of the increasingly stringent European fuel-quality and environmental standards. Therefore, INA will invest approx. one billion dollars into the modernization of its Rijeka and Sisak refineries, the first phase of which has already begun. Refinery capacities will increase from the current 5.2MMt/g to 7.7 MMt/g, whereas from January 1, 2009, the refineries will be able to produce Euro V quality petrol and diesel fuel with a maximum sulphur content of 10 ppm.
- Energopetrol recapitalized - On September 8, 2006 in Sarajevo, the Government of the B&H Federation, the INA/MOL consortium, and Energopetrol signed an agreement for Energopetrol's recapitalization. Thus, INA/MOL acquired a 67% share in the company, which includes 65 petrol stations and 2 office buildings. According to the agreement, INA-MOL will invest 150 million KM into Energopetrol over the next three years, as well as provide additional investments for keeping all its employees and settling debts from the previous

two years. The act of recapitalization guarantees Energopetrol's revival into a modern and highly competitive company capable of offering high-quality products.

- INA begins natural gas test production at Palmyra Field - After the joint venture Hayan Petroleum Company started up commercial crude production from the Jihar Field in the Hayan concession in August 2006, work has intensified on the construction of gas pipelines on Palmyra field's two wells and their connection with the Arak station owned by the Syrian gas company.
- Start-up of the Pula-Karlovac gas pipeline - The official start-up of this strategic facility took place in Pula on November 22, 2006. Natural gas from our North Adriatic gasfields, Ivana, Marica, Ika and Ida, finally started flowing directly to Croatian consumers. With this facility, we have formed the backbone of Croatia's gas distribution system, which will ensure stable gas supply during winter months as well as compensate for the natural decline in production from on-shore fields. Thus, domestic production will cover more than 60% of the gas demand in Croatia.
- SAP system launched - On November 1, 2006, INA launched the SAP system. SAP is currently the world's best IT software for oil businesses, and INA has finally joined the circle of its successful users. Preparations for the introduction of this integrated IT system lasted about 18 months. The changes brought about with its implementation were enormous, not at all painless, and required lots of money, hard work and knowledge. The so-called first package launched on November 1, covers refining and logistics, finance and investments, wholesale, procurement, and storage. Retail, human resources, and maintenance kicked off two months

later, on January 1, 2007, thereby completing SAP implementation. The SAP system connects every segment of INA with the same information and processes, thus adding speed and quality to not only our business operations, but also our business decisions. It is also likely to contribute to profit growth, since the system provides real-time information on all processes. True, that the initial phase of SAP implementation is costly, but in the end, it is the best solution for making correct and efficient business decisions.

INA's economic goals for the year 2007 and mid-term period to 2011, are as follows:

1. Growth of core business profit at an average annual rate of 55%
  - Positive effects: increased crude production from Egypt concession, increased natural gas production from Syrian concession and Northern Adriatic, growth in capacity and better crack spread due to refinery modernization, cost-cutting measures;
  - The positive effects have somewhat lost pace due to expected lower world crude prices and the regulated fuel pricing formula for the domestic market.
2. Growth of sales revenue at an average annual rate of 10.5%
  - The positive trend is caused by: increased oil and gas production volumes, and increased revenue from gas sales on the domestic market due to higher prices of domestic gas for eligible customers.

The following changes may have a negative effect on these trends:  
Lower prices of crude and associated products

- lower prices of export crude and associated products



- lower wholesale margins on the domestic market (application of the new Maximum Fuel Prices Regulations);

#### Risks in Syria

- since the income is based on the GSA terms concluded with the Syrian government (the gas price is tied to the price of heavy fuel oil), any change whatsoever in announced prices of heavy fuel oil may result in price discussions and have a significantly negative impact on planned income.

#### Negative changes in the gas business

- Inability to raise the gas prices for eligible customers in Croatia,
- Inability to transfer the increased prices of imported Russian gas to domestic market prices.

#### 3. Refinery modernization

Refinery modernization was planned in order to attain additional refining and conversion capacities, as well as produce EURO IV and EURO V quality fuels.

#### Risks associated with INA activities:

- prices of crude, natural gas, and associated products depend on various factors over which INA has no control whatsoever,

- refinery margin trends,
- state regulations and interventions,
- failure to solve issues regarding regulated prices of natural gas on the domestic market,
- successful modernization of our refineries as scheduled, in the aim of producing EU-quality fuels,
- risks associated with exploration drilling and well development,
- fluctuation of foreign currency exchange rates,
- expiration of the natural gas supply agreement with Gazexport (in 2010); it is uncertain whether INA will be able to renew the agreement under the current or more favourable terms,
- ability to renew current oil and gas reserves,
- the political climate in Syria and negotiations requested by the Syrian party may have a negative effect on the net profits of our operations in Syria,
- efficiency of our retail network's reconstruction and improvement,

- compliance with environmental legislation, which may become harsher,
- dependence of retail on tourism development,
- aggressive competition in the oil and gas industry,
- facilities and operations may be targets of international terrorism,
- potential losses not covered by insurance,
- influence of key shareholders on the strategic direction of INA and corporate activities,
- further privatization in accordance with the INA Privatization Act,
- rights of the Republic of Croatia as shareholder (executed by the Government) may limit the rights of other shareholders and/or may be in contrast to the interests of other shareholders,
- licenses essential to INA activities may be withdrawn or will require renewal,
- certain licenses and formal proof of INA's ownership may be lacking, deemed inadequate, incomplete or inappropriate,
- EU accession/non-accession,
- national political changes in 2007 (parliamentary elections) may influence INA activities,
- inability to control employee costs (influence of unions),
- influence of market competition regulations.

### **INA 2006 BUSINESS RESULTS IN RELATION TO PLANS**

Total income was 23% higher than planned, which is attributed to 12% higher domestic sales and 33% higher foreign sales.

Increased domestic sales were influenced by higher average prices of products, together with the negative effect of 8% less products sold.

The increase in foreign sales was achieved with a new product assortment and higher average selling prices, along with the increased sale of crude in Angola and Egypt.

The business year ended with 4% slower growth of total income in relation to total expenses growth as planned, resulting in a 30% profit reduction.

Higher expenses were mainly influenced by 34% higher costs of feed, material, and energy. The average net price of imported crude grew by 35.6% due to the 44.8% average price growth of BRENTdtd FOB (SPOT) crude in US\$/bbl, along with the 1.2% slower growth of the US dollar exchange rate.

The valuation of fixed and current assets 2.7 times higher than planned had a negative effect on INA's stated financial results. Total investments into tangible and intangible assets reached 89.2% of the planned investment funds.

## ECONOMIC INDICATORS

### ECONOMIC PERFORMANCE

#### 5.1

2004		2005			2006		
mln HRK	mln \$	mln HRK	mln \$	Index 3/1	mln HRK	mln \$	Index 6/3
1	2	3	4	5	6	7	8
15,924	2,825	19,234	3,085	121	21,326	3,823	111
<b>INA 2004-2006 SALES REVENUE</b>							

Note: The US\$/HRK exchange rate was used as per Dec 31 of the corresponding year.

MARKET	2004		2005			2006		
	mln HRK	mln \$	mln HRK	mln \$	Index 3/1	mln HRK	mln \$	Index 6/3
	1	2	3	4	5	6	7	8
Croatia	11,281	2,001	13,485	2,163	120	14,352	2,573	106
ex-YU countries	2,168	385	1,935	310	89	2,305	413	119
European Union	2,289	406	3,415	548	149	4,176	749	122
Other	186	33	399	64	215	493	88	124
<b>TOTAL</b>	<b>15,924</b>	<b>2,825</b>	<b>19,234</b>	<b>3,085</b>	<b>121</b>	<b>21,326</b>	<b>3,823</b>	<b>111</b>
<b>INA 2004-2006 REVENUE PER MARKET</b>								

2004		2005			2006		
mIn HRK	mIn \$	mIn HRK	mIn \$	Index 3/1	mIn HRK	mIn \$	Index 6/3
1	2	3	4	5	6	7	8
12,501	2,218	16,220	2,602	130	18,457	3,309	114

#### INA 2004-2006 COSTS OF PURCHASED MATERIALS, GOODS, AND SERVICES

ITEM	2004		2005			2006		
	mIn HRK	mIn \$	mIn HRK	mIn \$	Index 3/1	mIn HRK	mIn \$	Index 6/3
	1	2	3	4	5	6	7	8
Net	654	116	737	118	113	778	139	106
Taxes and surtaxes	451	80	521	84	116	561	101	108
Other payroll costs	143	25	226	36	158	180	32	80
<b>TOTAL</b>	<b>1,248</b>	<b>221</b>	<b>1,484</b>	<b>238</b>	<b>119</b>	<b>1,519</b>	<b>272</b>	<b>102</b>

#### INA 2004-2006 PAYROLL COSTS

ITEM	2004		2005			2006		
	HRK	\$	HRK	\$	Index 3/1	HRK	\$	Index 6/3
	1	2	3	4	5	6	7	8
Commuting expenses	40,657,552	7,212,772	44,436,762	7,128,587	109	50,623,674	9,074,944	114
Severance compensation	6,673,756	1,183,944	79,375,405	12,733,477	1,189	38,101,032	6,830,099	48
Various other financial support	6,241,871	1,107,327	5,707,629	915,623	91	4,773,999	855,801	84
Christmas bonus	16,287,288	2,889,414	21,137,250	3,390,858	130	24,668,600	4,422,163	117
St. Nicolas Day children's bonus	2,234,400	396,389	2,136,400	342,723	96	2,064,000	369,998	97
Jubilee rewards	5,244,070	930,314	5,295,500	849,509	101	4,768,000	854,725	90
<b>TOTAL</b>	<b>77,338,937</b>	<b>13,720,160</b>	<b>158,088,946</b>	<b>25,360,778</b>	<b>204</b>	<b>124,999,305</b>	<b>22,407,730</b>	<b>79</b>

#### INA 2004-2006 EMPLOYEE BENEFIT OBLIGATIONS

Note: The indicated employee benefit obligations are included in item "Other payroll costs" of the "2004-2006 Payroll Costs" table.

2004		2005			2006		
mIn HRK	mIn \$	mIn HRK	mIn \$	Index 3/1	mIn HRK	mIn \$	Index 6/3
1	2	3	4	5	6	7	8
42	7	52	8	124	91	16	175

**INA 2004-2006 LOAN INTEREST PAID**

A dividend of HRK 13.08 per share will be paid for the year 2006.

2004		2005			2006		
mIn HRK	mIn \$	mIn HRK	mIn \$	Index 3/1	mIn HRK	mIn \$	Index 6/3
1	2	3	4	5	6	7	8
985	175	892	143	91	670	120	75

**INA 2004-2006 PROFIT EARNED**

The profit of HRK 670 million earned in 2006 will be distributed as follows: losses from previous years HRK 119 million; mandatory reserves HRK 28 million; other company reserves HRK 392 million; dividends HRK 131 million.

INA 2006 Return on Assets (ROA):

$$\text{ROA (\%)} = \frac{\text{Profit}}{\text{Total Assets}} \times 100 = \frac{670}{20,239} \times 100 = 3.30\%$$

Country	2004		2005			2006		
	mIn HRK	mIn \$	mIn HRK	mIn \$	Index 3/1	mIn HRK	mIn \$	Index 6/3
	1	2	3	4	5	6	7	8
Croatia	5,889	1,045	5,315	853	90	4,851	870	91
Angola	48	9	37	6	77	37	7	100
<b>TOTAL</b>	<b>5,937</b>	<b>1,053</b>	<b>5,352</b>	<b>859</b>	<b>90</b>	<b>4,888</b>	<b>876</b>	<b>91</b>

**INA 2004-2006 TOTAL TAXES PAID**

Note: Taxes paid in Croatia include income tax and surtax, VAT, excise duty on oil products, and oil-product duties for roads and motorways.

Item	Average gross wage (HRK)						Index					Fixed base index					
	2001	2002	2003	2004	2005	2006	3/2	4/3	5/4	6/5	7/6	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Republic of Croatia*	5,061	5,366	5,623	5,985	6,248	6,634	106.0	104.8	106.4	104.4	106.2	100.0	100.0	100.0	100.0	100.0	100.0
Croatia - Industry	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***	***
Industrial sectors according to national classification*:																	
- Mining and exploitation	5,696	5,942	6,332	6,629	7,283	7,894	104.3	106.6	104.7	109.9	108.4	112.5	110.7	112.6	110.8	116.6	119.0
- Processing	4,465	4,794	5,043	5,288	5,575	6,003	107.4	105.2	104.9	105.4	107.7	88.2	89.3	89.7	88.4	89.2	90.5
- Electricity, gas, and water supply	5,480	5,700	6,086	6,720	6,913	7,342	104.0	106.8	110.4	102.9	106.2	108.3	106.2	108.2	112.3	110.6	110.7
- Civil engineering	3,975	4,549	4,884	5,105	5,212	5,593	114.4	107.4	104.5	102.1	107.3	78.5	84.8	86.9	85.3	83.4	84.3
INA - Industrija nafte d.d.	5,924	6,278	6,767	7,401	8,277	9,094	106.0	107.8	109.4	111.8	109.9	117.0	117.0	120.3	123.7	132.5	137.1
<b>EMPLOYEE COMPENSATION</b>																	

\*Source: Republic of Croatia, Central Bureau of Statistics

The average gross wage at INA maintained at approximately 20% higher than the 2001-2004 national average. INA wages in 2005 were 32% higher, and in 2006 37%.

### DONATIONS AND SPONSORSHIPS

Since 2004, INA has been granting donations and sponsorships by public invitation, which has made this exceptionally important domain accessible and transparent to all potential

beneficiaries as well as the public. The basic criteria for approving donations are: project quality and originality, regional presence, high level of community benefit, and the fact that the project begins or ends in the corresponding calendar year. Our donations cover projects in five fields of activity: children and youth, culture and art, education and science, healthcare and ecology, and humanitarian projects.



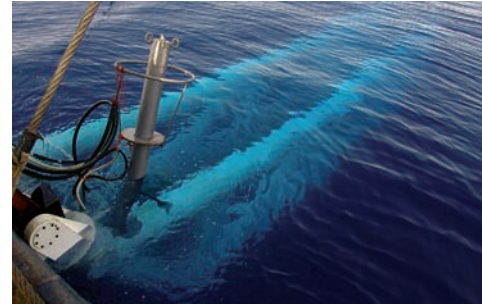
In 2006, INA allocated approx. HRK 40 million for donations and sponsorships.

The annual scholarship campaign “Top Scholarships to Top Students”, launched jointly by INA and NCL Media Group, awarded scholarships to the best students this year as well. INA also provided scholarships for three foreign students.

INA also donated fuel to some twenty first-category invalids from all parts of Croatia, who were selected by their local associations. In future, invalids will have access to free fuel in the amount of HRK 1,000 per month.

Type of education / training	In-house / Out-of-house	Number of employees		
		2006	2005	2004
1	2	3	4	5
1. Introductory training	In-house		86	26
2. Internship	In-house	154	174	99
3. Safe-work training		1,404	988	744
4. Studying while working	Out-of-house	418	301	279
5. Professional training	In-house / Out-of-house	2,291	2,511	1,841
6. Additional training - computer, foreign languages, middle and top management, quality management system	In-house / Out-of-house	6,660	5,888	6,933
7. Practical training and specializations		23	0	11
8. Scholarships for secondary-school and university students (Top Scholarships + scholarships to 3 Syrian students)		13	13	10
9. Practical training for secondary-school and university students	In-house	712	1,110	686
<b>Total</b>		<b>11,675</b>	<b>11,071</b>	<b>10,629</b>
<b>EMPLOYEE TRAINING AND EDUCATION</b>				

Note: Due to the fact that a significant number of employees had to attend SAP training, many of our planned courses for 2006 were not realized (the number of employees that passed SAP training is not indicated in the above table).



### **5.2 FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES DUE TO CLIMATE CHANGE**

INA's CO<sub>2</sub> emissions in 2006 reached 2,700,348.17 tons. The Kyoto Protocol commits us to reduce these emissions, which may be achieved by trading the CO<sub>2</sub> emissions or by their sequestration in geological formations.

A proposal for a CO<sub>2</sub> emissions fee of HRK 9-11/t is to be submitted to the Croatian Parliament during 2007.

An Enhanced Oil Recovery Project by the CO<sub>2</sub> injection method is currently being implemented in the oilfields of Ivanić and Žutica. The basic aim of this project is to enhance oil recovery from these fields and simultaneously reduce CO<sub>2</sub> emissions.

### **5.3 BONUS SEVERANCE PAY FOR WORKERS ELIGIBLE FOR THE OLD-AGE PENSION**

According to the corporate resolution Bonus Severance Measures for Termination of Employment in 2005-2007, workers fulfilling the old-age pension eligibility requirements in 2006 were entitled to a bonus severance pay.

### **5.4**

During the reporting period, INA received no subsidies from the private sector, either in the country or abroad.

## MARKET PRESENCE

### 5.5 STRUCTURE OF SUPPLIERS WITH >2% SHARE IN TOTAL 2006 PROCUREMENT

National suppliers			Foreign suppliers		
Supplier	mIn HRK	Share in total supply, %	Supplier	mIn HRK	Share in total supply, %
Carinarnica Rijeka (Customs)	2,152	22.44	Interina London	7,244	48.17
Crosco	353	3.68	Gazprom	1,766	11.74
INAGIP d.o.o.	2,373	24.74	Interina Guernsey Limited	992	6.60
STSI	852	8.88	ENI S.P.A.	741	4.93
Other	3,860	40.25	MOL Plc	2,328	15.48
			Other	1,966	13.07
<b>TOTAL</b>	<b>9,590</b>	<b>100.00</b>	<b>TOTAL</b>	<b>15,037</b>	<b>100.00</b>

## INDIRECT ECONOMIC IMPACTS

### 5.6

For several decades, INA traditionally financed infrastructure, especially in communities where we engaged in oil & gas exploration and production. Such investments were most intense during the 1980's, when INA financed the construction of schools, hospitals, medical centres, and holiday resorts, among others. This trend has notably decreased over the last ten years. However, there are still traces of INA-financed infrastructure in local communities.

## SOURCES

INA Financial Reports 2004, 2005, 2006  
 INA Business Records, 2004, 2005, 2006  
 INA Glasnik No.1888, Dec 19, 2006.  
 INA Glasnik No.1886, Nov 14, 2006  
 INA Paid Wages Operational Report for December 2006, and Jan-Dec 2006  
 Central Bureau of Statistics



**Environmental Aspect**

# ENVIRONMENTAL ASPECT

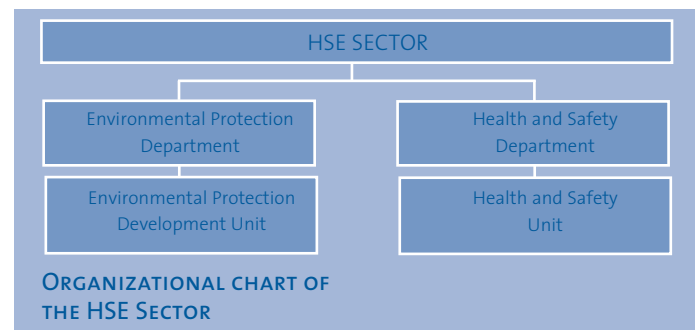
As an integral part of our business policy, environmental management is organized in all our core activities, which reflects our commitment to sustainable development.

INA thus undertakes to:

- Reduce the environmental risks arising from our technology, processes, and products to the lowest possible level;
- Act preventively against unforeseen events and environmental pollution;
- Protect natural values;
- Fulfil our obligations arising from past environmental pollution;
- Improve constantly implementation of environmental protection;
- Regulate our activities according to environmental legislation;
- Take an active part in developing legislation, co-operate with legislative bodies, professional and other societies;
- Provide our employees the necessary training and education so that they may conduct activities in compliance with environmental requirements;

- Communicate openly with all parties interested in INA's activities and environmental management.

The Health, Safety and Environmental Management Sector is the central organizational unit at INA in charge of all three areas. It acts as part of the Corporate Processes Function with the aim of uniformly managing HSE. This includes defining common policy, strategy and objectives as well as operating in compliance with these rules, and at the same time, meeting legal and other requirements. The Sector co-operates daily with its sub-departments throughout INA. Conformity in environmental management activities is also provided through the Environment Protection Activities Work Group appointed at corporate level. Health and safety activities, including occu-





ational safety and fire safety, are also managed through various occupational safety committees.

The Sector is in charge of the following activities:

- Defining objectives and guidelines
- Participating in the development of proposals and providing opinions on HSE regulations;
- Supervising and controlling HSE activities;
- Drafting environmental management, occupational safety, health and fire safety documents;

- Preparing relevant reports, information and training;
- Maintaining a register of waste and pollutant emissions to air and water;
- Monitoring and analyzing unforeseen events affecting the environment;
- Monitoring and analyzing inspection reports and lawsuits concerning environmental protection, as well as analyzing safety measures, injuries and occupational diseases;
- Monitoring and analyzing HSE costs;





- Co-ordinating HSE activities.

In order to better inform our employees of our legal obligations regarding health, safety, and environmental protection, the HSE Sector has organized a series of monthly lectures aiming to present and explain certain new legislation of the Republic of Croatia and the European Union.

The basic environmental indicators that we monitor are pollutant emissions to air and water, water consumption and water-management fees, management of hazardous and non-hazardous industrial waste, unforeseen events affecting the environment, and environmental management costs.

All our organizational units that pose a potential or actual threat to human health, safety, or the environment, possess ISO 14001 certified environmental management systems, and OHSAS 18001 health and safety management systems. The only exception is the Retail Network Management Sector, where the health and safety management system is in its implementation phase.

- Sisak Oil Refinery - ISO 14001:2004
- Rijeka Oil Refinery - Urinj - ISO 14001:2004
- Rijeka Oil Refinery - Mlaka - ISO 14001:2004



- Exploration & Production Division - ISO 14001:2004
- Retail Network Management Sector - ISO 14001:2004

These certificates guarantee that every environmental, health and safety issue is under constant supervision, as well as represent recognition for all our efforts in this domain so far.



## ENVIRONMENTAL PERFORMANCE INDICATORS MATERIALS

### 6.1

Type of Feed	Unit of measure	Quantity
Crude oil	t	4,941,701
Other light fuel oils, light products	t	15,161
Atmospheric distillation residue of crude oil	t	342,628
Natural gas - oil reservoir	m <sup>3</sup>	54,470,272
Natural gas - gas reservoir	m <sup>3</sup>	1,513,015,432
Natural gas condensate	t	180,515
Geothermal water	m <sup>3</sup>	215,923
Liquid (water + crude oil)	m <sup>3</sup>	34,160
Ethane + cuts	t	110,865
Sweetwater	m <sup>3</sup>	409,043
<b>RAW MATERIALS USED IN THE PRODUCTION PROCESS</b>		

## 6.2 RECYCLED INPUT MATERIALS

Type of waste material	Quantity (in tons)
Non-specified waste	4.00
Oily sludge from plant and equipment maintenance	2.50
Non-halogen emulsions and solvents	0.10
Mineral-based non-chlorinated hydraulic oils	8.90
Other hydraulic oils	1.00
Mineral-based non-chlorinated lubricating oils for engines and gears	8.50
Other lubricating oils for engines and gears	47.00
Synthetic insulating and heat transmission oils	0.20
Residual oil remaining at the bottom of tankers after off-loading	43.80
Sludge from the oil/water separator	25.00
Oily water from the oil/water separator	10.50
Fuel oil and diesel	5.32
Gasoline	55.00
Grease and oil mixtures from the oil/water separator	10.00
Oil-containing waste	189.00
<b>Total</b>	<b>410.82</b>

## ENERGY

### 6.3

In 2006, INA consumed HRK 1,117,297 worth of fuels and HRK 6,712,188 worth of lubricants in the production process. Fuels consumed for other purposes amounted to the sum of HRK 17,537,469, while gas amounted to HRK 43,371,941.

Type of energy consumed	Value in HRK
Fuel	18,654,766
Lubricants	6,712,443
Gas	43,371,942
<b>Total</b>	<b>68,739,151</b>

**ENERGY CONSUMED IN PRODUCTION AND OTHER PROCESSES (BY PRIMARY ENERGY SOURCE)**

#### 6.4

In 2005, INA consumed electrical energy equivalent to the sum of HRK 107,758,292, and steam equivalent to HRK 4,164,004.

Type of energy consumed	Value in HRK
Electrical energy	107,758,292
Water	45,615,501
Steam	4,164,004
<b>Total</b>	<b>157,537,797</b>
<b>INDIRECT ENERGY CONSUMPTION BY PRIMARY SOURCE</b>	

#### 6.5

In recent years there have been intensive discussions regarding exploitation of geothermal waters from INA E&P oil wells for the generation of electrical energy, application in various industrial processes, heating greenhouses, and other purposes. Such application has increased the share of geothermal water in total energy consumption, which complies with the EU directive for promoting the use of renewable energy sources and the set indicative targets.

#### 6.6

The hot water from our well in the area of Lunjkovec-Kutnjak (its temperature reaches up to 140°C), will be used to drive the first power plant in Croatia using geothermal water for the generation of electrical energy. The used hot water from the power plant will serve several other purposes: in fruit and vegetable processing, fish breeding, or in spas.

## WATER

### 6.7

For the purpose of cooling our storage tanks and process equipment, INA withdraws water from the water supply system, the rivers Sava and Kupa, own water wells, the Tribalj dam, and the sea.

In 2006, INA withdrew 7,649,181 cubic metres of water, while the Rijeka Oil Refinery withdrew an additional 42,033,616.68 cubic metres of seawater for cooling purposes.

The Retail Network Management Sector, part of which are our petrol stations, has no technological processes that consume significant volumes of water, as do other parts of INA. Most of the water is used for sanitary purposes.

### 6.8

Not one source is significantly affected by withdrawal of water.

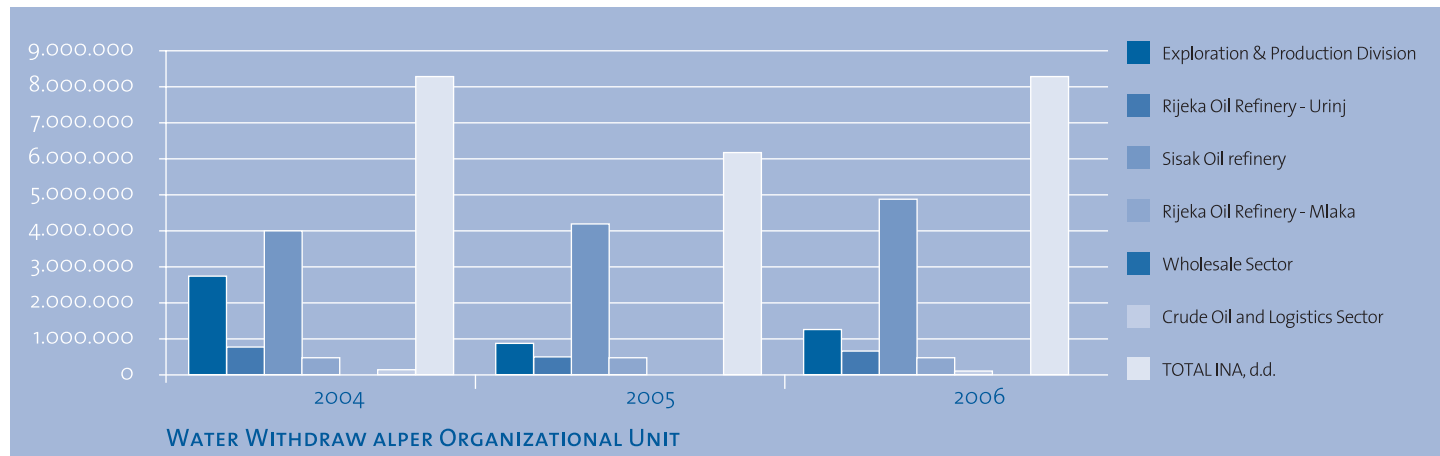
## BIODIVERSITY

### 6.9

#### BEAVERS

At the Zagreb School of Forestry, in April 2006, INA organized the celebration of the 10th anniversary of the “Beaver in Croatia” campaign. This project was launched and implemented in co-operation with the Zagreb School of Forestry, the Institute of Wildlife Biology from Munich, and others, with the aim to re-introduce this sympathetic rodent to our waterways, from where the last of its native kind disappeared over a hundred years ago.

From 1996 to 1998, eighty-five beavers from Bavaria were released in the area of our Žutica and Legrad oilfields. Our environmental studies established that this area is fully suitable for repopulating the beaver, despite the thirty-year oil production of the nearby Žutica field. Following a period of adjustment, building lodges and courting, the beavers are now busy multiplying and colonizing this area. They have fulfilled their mission





completely, and currently their proud colony counts between 300 and 350 members.

The first Bavarian beavers were brought and released alongside of our E&P premises, in the Žutica woods, not far from Zagreb, where they settled successfully and began to multiply.

#### 6.10

It is a known fact that this animal thrives only along clean waterways, so that their presence in any given area is the best indicator of its cleanliness. A major part of our oil and gas production comes from the Žutica field, i.e. one-fifth of total domestic hydrocarbon production. However, these activities that have been going on for several decades, along with all the accidents that have occurred, have not significantly threatened the highly sensitive and complex area, known for its numerous plant and animal species. The fact that the beavers have settled there and are multiplying, is proof of INA's commitment to environmental preservation and protection.

As the golden sponsor of the Planet Earth Day celebration, INA organized the play "Beaver Darko in the Žutica Woods" for our youngest visitors.

The future of our beavers now seems brighter and INA is making every effort to provide them the natural habitat they rightfully deserve.

#### 6.11

##### THE WHITE STORK - SYMBOL OF POSAVINA DISTRICT

Our Stručec Plant is located in the town of Stručec, along the east side of the field Lonjsko Polje and the left bank of the river Lonja. Since this plant is in the neighbourhood of Lonjsko Polje Nature Park, we are permanently engaged in preserving and protecting our co-existence with the flora and fauna native to the nature park. As part of our E&P Division, the Stručec Plant is ISO 14001 certified, which confirms constant monitoring, documenting, analysis and improvement of the environmental management system in all its facilities.

The white stork is one of the most beautiful and most elegant birds, known for its gracious soaring flight. Young storks reach sexual maturity in their fourth or fifth year; they normally have up to 2 chicks, and only later up to 5.



### 6.12

The premises of our Stružec production plant, with its four oil fields - Stružec, Mramor Brdo, Okoli and Voloder, is the cradle of oil and gas production in Croatia. The Stružec oilfield alone produces 97% of the plant's crude oil, while over the past five decades, the entire Stružec plant has produced 17.2 million cubic metres of crude oil and 2.2 million cubic metres of natural gas.

Our facilities in the Stružec Plant are equipped with several lighting platforms that serve for illuminating the areas around the process vessels and equipment. The storks took a liking to these platforms for their height and roominess, and started nesting on a few posts.

By observing the nests we noticed the storks had problems taking flight and landing, and concluded that at landing they were exposed to electrical shock or injury if they were to hit into the reflector housing. If needed, the reflectors could not be repaired without moving the nest, and access would be difficult.

### 6.13

We called in the nature park authorities and presented them with our plan for building nesting platforms and relocating the storks' nests to these new posts. Finally, we agreed upon how to relocate the nests before the storks return, expected in mid March 2007.

Suitable locations for the nests have been assessed, and five nesting platforms will be built.

### 6.14

The Red List and Red Book of Threatened Species is the most comprehensive inventory of the global conservation status of plant and animal species. Our national Institute for Nature Protection, in the year 2000, started developing a Red List of Threatened Species of Croatia. There are nine categories in the IUCN Red List system: Extinct (EX), Extinct in the Wild (EW), Critically Endangered (CR), Endangered (E), Vulnerable (V), Near Threatened (NT), Least Concern (LC), Data Deficient (DD), and Not Evaluated (NE). Classification into the categories for species threatened with extinction (Vulnerable, Endangered, and Critically Endangered) is through a set of five quantitative criteria that form the heart of the system.

Two species that may be found in various locations of our operation have been classified into the Red List of Threatened Species of Croatia:

Latin	Croatian	English	Category
Ciconia ciconia	Bijela roda	White stork	NT nb*
Castor fiber Linnaeus 1758	Dabar	European beaver	NT

nb\* nesting birds

The white stork is also categorized in the IUCN Red List.

## EMISSIONS, EFFLUENTS, AND WASTE

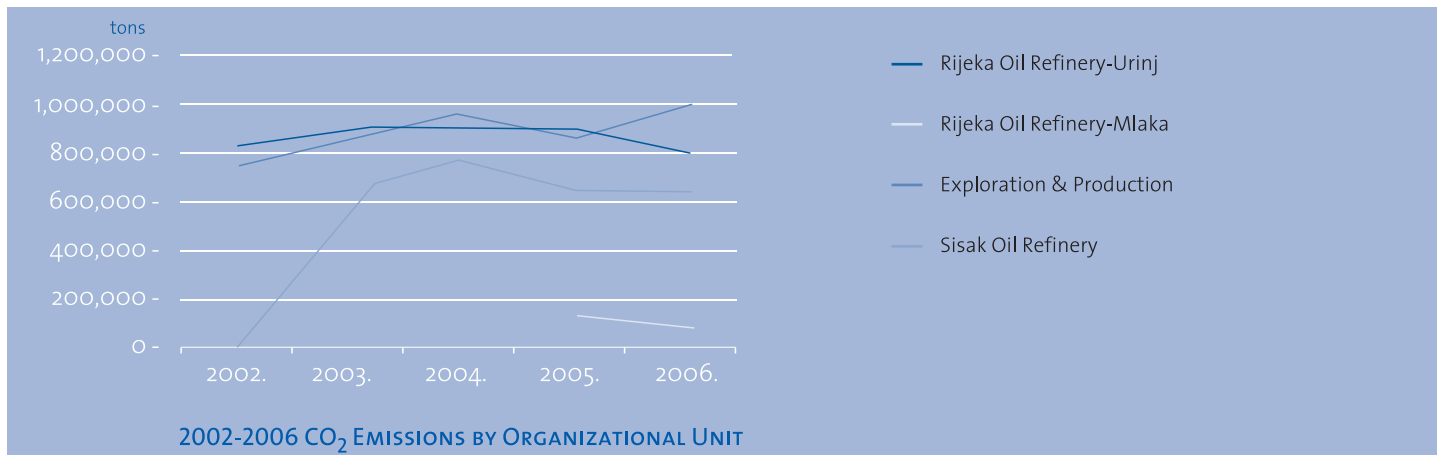
### 6.15

#### AIR EMISSIONS

INA measures and calculates CO<sub>2</sub> emissions to air from stationary sources.

Organizational Unit	CO <sub>2</sub> emissions (in tons)
Rijeka Oil Refinery - Urinj	801,438
Sisak Oil Refinery	643,778
Rijeka Oil Refinery - Mlaka	100,665
Exploration & Production	995,345
<b>Total</b>	<b>2,541,226</b>

**DIRECT CO<sub>2</sub> EMISSIONS OF INA IN 2006**



### 6.16

We have launched an Enhanced Oil Recovery Project by the CO<sub>2</sub> Injection Method, at the Ivanić and Žutica Oilfields, with the aim to increase crude recovery and at the same time reduce CO<sub>2</sub> emissions.

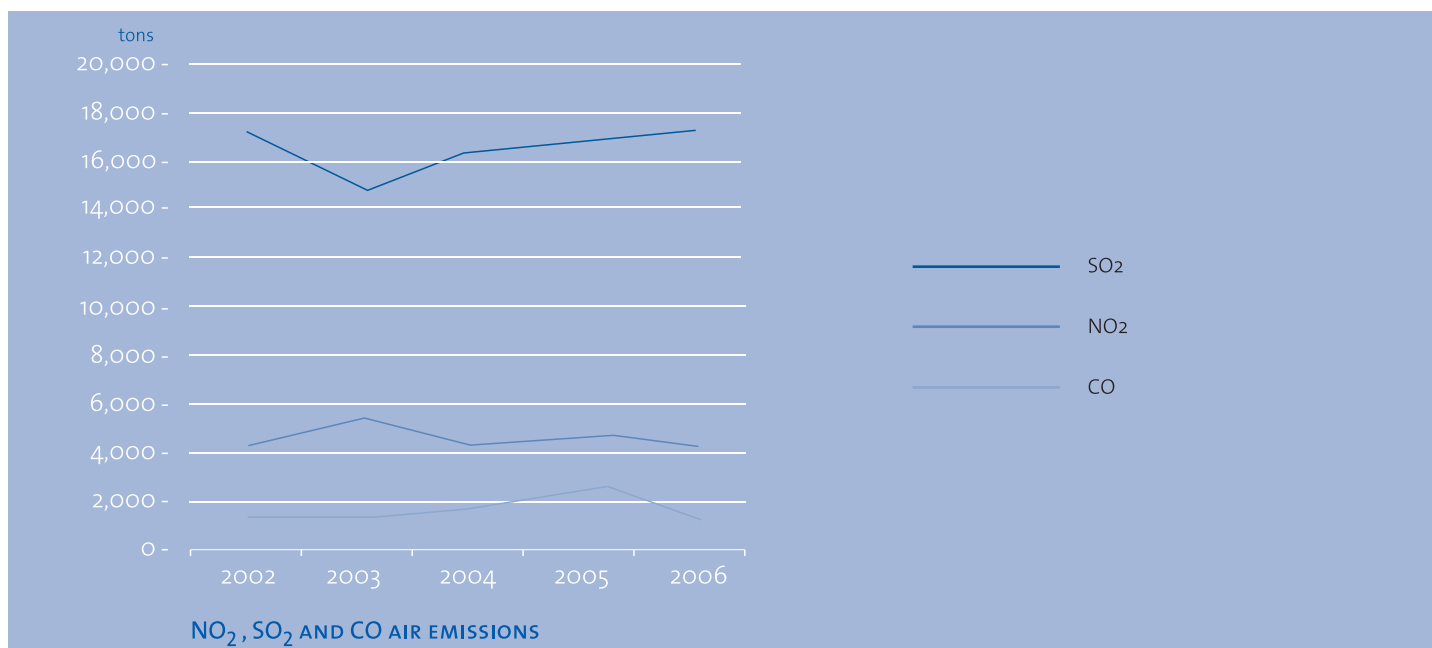
### 6.17

No ozone-depleting substances are used in our operations.



### 6.18 2006 AIR EMISSIONS (BY ORGANIZATIONAL UNIT)

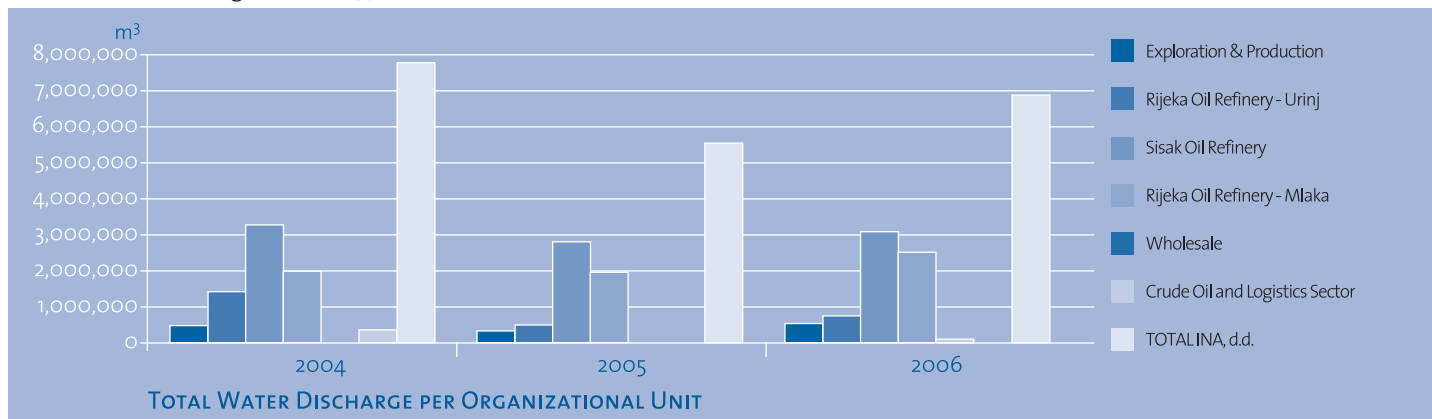
Organizational Unit	SO <sub>2</sub> Emissions (tons)	NO <sub>2</sub> Emissions (tons)	CO Emissions (tons)
Rijeka Oil Refinery - Urinj	7,147.60	1,552.50	137.55
Sisak Oil Refinery	8,301.26	1,511.43	113.60
Rijeka Oil Refinery - Mlaka	1,768.30	202.40	32.00
Exploration & Production	55.56	997.04	925.74
Retail Network Management Sector	0.00	0.21	0.13
Wholesale	0.22	0.33	0.16
<b>Total</b>	<b>17,272.94</b>	<b>4,263.91</b>	<b>1,209.18</b>



## WATER DISCHARGE

### 6.19

In 2006, INA discharged 48,828,538 m<sup>3</sup> of water.

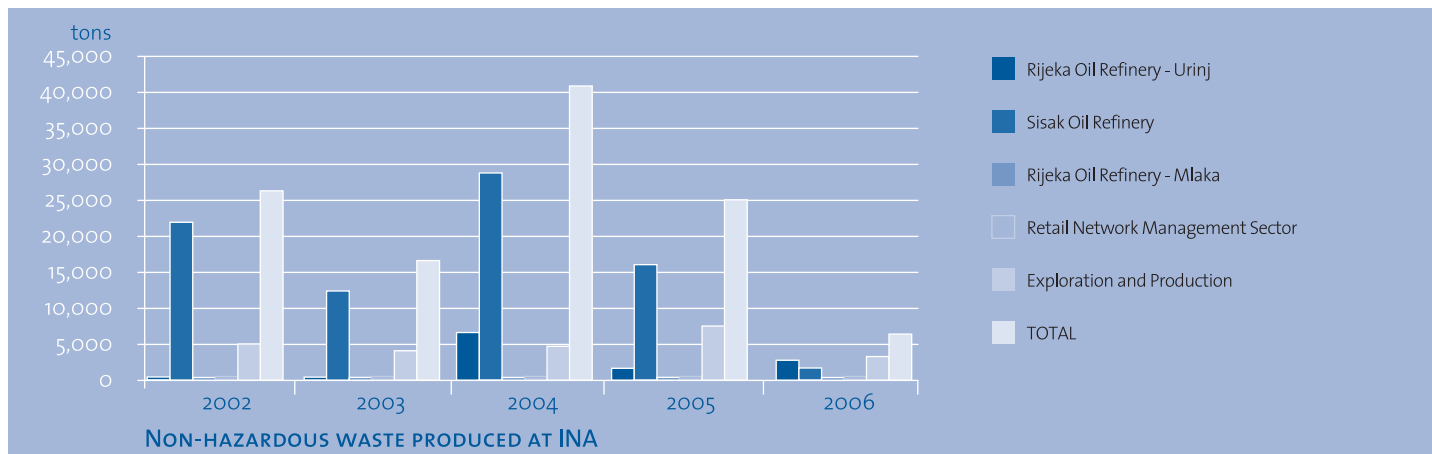


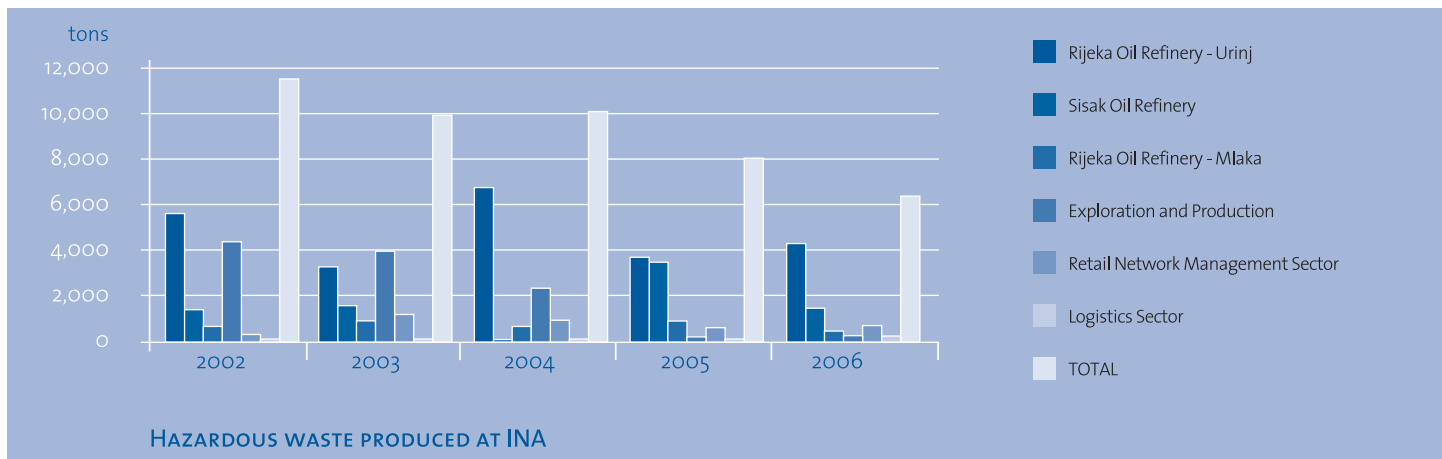
## WASTE

### 6.20

In 2006, INA produced 6,358.24 tons of hazardous waste and 6,606.73 tons of non-hazardous waste. The waste produced at the Rijeka and Sisak Oil Refineries was processed by authorized firms.

Exploration & Production disposed of its non-hazardous waste by injecting it into negative or depleted wells, while the hazardous waste was delivered to authorized processors. The Retail Network Management and Logistics Sectors delivered their hazardous and non-hazardous waste to authorized handlers for further processing.



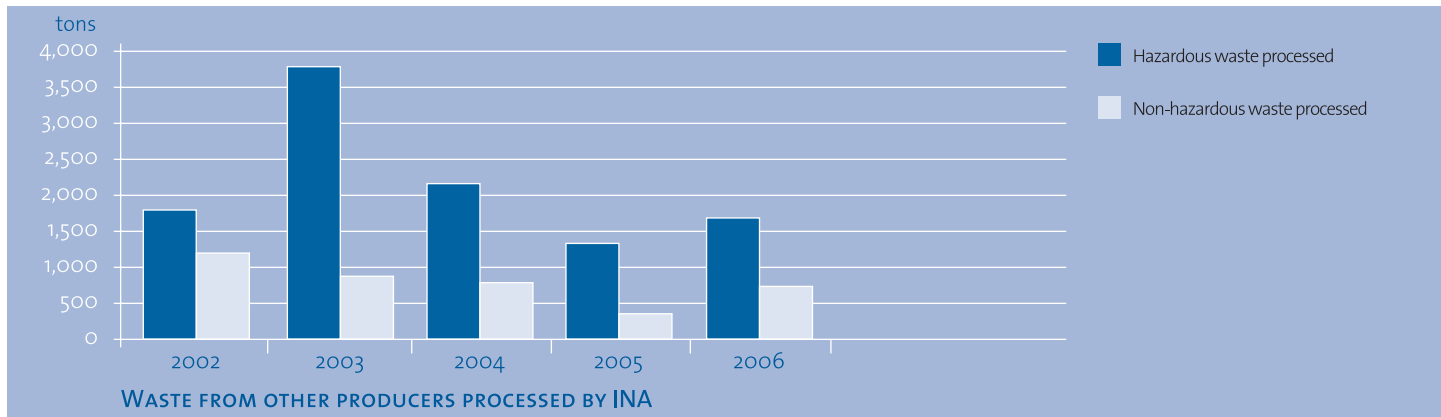


### 6.21

The Rijeka Oil Refinery - Urinj processes oily waste (residue oil from tankers after off-loading, sludge from the water/oil separator, oily water, grease/oil mixtures from the water/oil separator, and other lubricating oils), by adding the useful hydrocarbons to crude oil or by incineration, as well as mechanical, chemical or biological treatment. The remaining oily sediment is solidified. Thus, in 2006, the Rijeka Oil Refinery processed 1,581.24 tons of hazardous waste, of which 410.82 tons were

used in the refining processes, and 1,170.42 tons were permanently disposed or released into the sea after being treated in the wastewater treatment plant.

The Rijeka Oil Refinery - Mlaka regenerates waste barrels and incinerates I and II-category waste oils. In 2006, the refinery processed 153.84 tons of waste oils and 50.37 tons of used barrels.



Exported waste included 49.701 tons of activated carbon saturated with HgS (Germany), and 0.54 tons of lead accumulators and batteries (Slovenia).

## ACCIDENTS WITH ENVIRONMENTAL IMPACT

### 6.22

In 2006, INA recorded 17 unforeseen events with environmental impact, which is 47% less than in the previous year. Eight of the events had minimal impact on the environment (e.g. small

spills at petrol stations). The accidents were mostly caused by sudden disruptions in the technological process, pipeline fractures due to deterioration or damaged equipment, while another frequent cause was attempted robbery.

Accident	2005	2006
Process disruptions	5	3
Damaged equipment	9	3
Oil pipeline fracture	10	4
Seawater pipeline fracture	2	2
Pipe fracture	2	2
Spills	4	3
<b>Total</b>	<b>32</b>	<b>17</b>

CASES OF UNFORESEEN EVENTS WITH ENVIRONMENTAL IMPACT

Organizational Unit	Number of Unforeseen Events
Exploration & Production	6
Rijeka Oil Refinery - Urinj	4
Sisak Oil Refinery	1
Rijeka Oil Refinery - Mlaka	1
Retail Network Management Sector	3
Logistics Sector	2
<b>Total</b>	<b>17</b>
<b>UNFORESEEN EVENTS IN 2006</b>	

#### Major Spills

**1. Exploration & Production:** An oil spill was noticed in the Štekovica oilfield area in a forest aisle. It was established that the collector pipeline was leaking. An estimated 2 m<sup>3</sup> of crude oil was spilled, polluting approx. 200 m<sup>2</sup> of soil. Clean-up and pipeline repair began immediately. Damage was estimated at HRK 100,000.

**2. Naftaplin:** During construction work on the pressure-pipeline route, one of the construction machines collapsed and damaged the plastic pipe, releasing about 10 m<sup>3</sup> of drilling fluid into the ditch and the surrounding marshland. According to initial estimates, about 600 m<sup>2</sup> of the terrain was polluted. All appropriate measures were taken immediately: the wells shut, the pipeline emptied and the seals shut, followed by clean-up. Estimated damage amounted to HRK 125,000.

**3. Crude Oil and Logistics Sector; Varaždin storage facility:** During tank-truck loading, fuel began to leak through the pipe air-valve. The controls were turned off immediately, preventing further spilling. About 460 kg of fuel oil spilled into the soil. Investigation of the outlet separator established that there was no fuel present, thus eliminating the possibility of it leak-

ing into the sewage system. Improper operation of the separator is suspected. Damage is estimated at HRK 2,600.

**4. Rijeka Oil Refinery - Mlaka:** Bitumen was spilled onto the road, equipment, landings and access stairs, when filling a tank-truck with industrial bitumen. According to initial assessments, approx. 500-700 kg of bitumen were spilled. The area was secured immediately, and the road sealed off for traffic up to the entrance weighbridge. An authorized firm was engaged for clean-up.

#### 6.23

There is no information regarding water bodies and related habitats being significantly affected by our discharges of water and runoff. Quite the contrary, we are proud of our co-existence with the natural environment. A good example of the harmony between nature and our operations is the Lonjsko Polje nature park located only a few kilometres from the Sisak Oil Refinery.

## PRODUCTS AND SERVICES

### 6.24

Each year INA implements numerous projects directly or indirectly associated with environmental protection. The aim of these projects is to upgrade the eco-efficiency of our operations by reducing pollutant emissions into the surroundings of all our production, refining, storage, and retail facilities, as well as improve functionality and safe operation of the processing plants, rationalize the use of energy, raw materials, and other input materials for the production of low-sulphur diesel fuels and petrol.

Since 2004, at all INA petrol stations we have arranged yellow waste bins for oily plastic packaging, anti-freeze packaging, and other plastic packaging, as well as red bins for all other oily waste such as oily rags, gloves, and other oily material. The collection, transport, and disposal of this waste has been entrusted to an authorized firm.

Since January 1, 2006, we have discontinued the sale of leaded petrol, in compliance with our legal obligation regarding fuel quality in the domestic market. Simultaneously, we began with the sale of low-sulphur fuels according to the EURO IV standard.

## COMPLIANCE

### 6.25

1. In 2006, there were no fines paid for non-compliance with environmental laws and regulations.

2. Non-monetary sanctions involve our obligations specified by environmental inspection authorities (required costs were paid):

- Due to exceptionally high immission concentrations of SO<sub>2</sub>

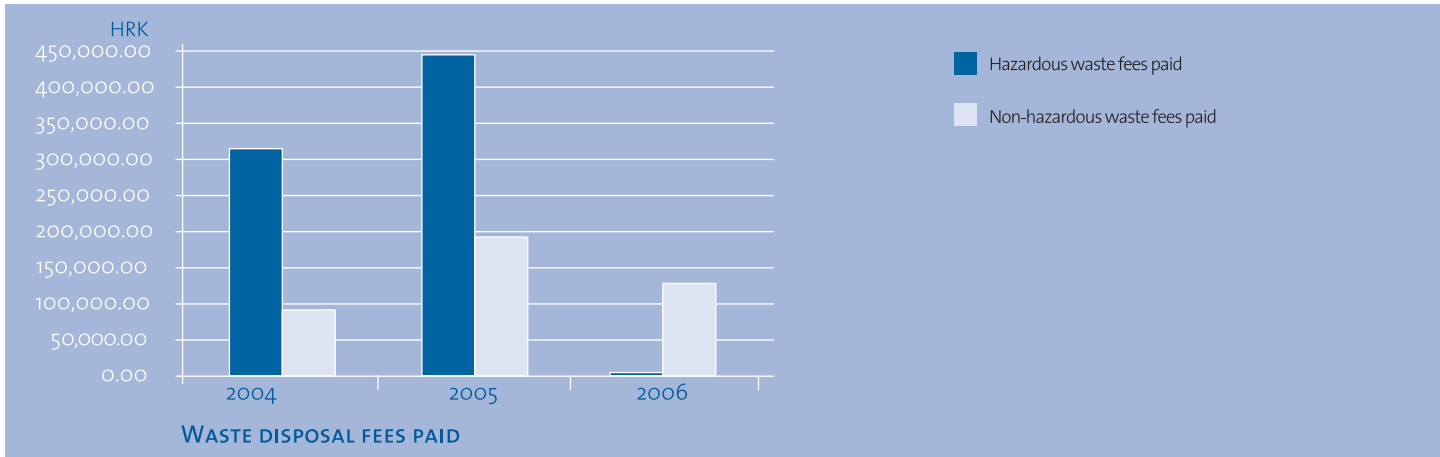
and H<sub>2</sub>S in the Sisak Refinery, a sanction was issued requiring the Sisak Refinery to connect to the automatic monitoring station Sisak 1 within the national network, in order to provide insight to the ten-minute data on specific air quality indicators in the suburb of Caprag, and respond promptly in regard to reducing the plant's emissions.

- Pressure pipeline fracture at the Šandrovac plant: INA acted in accordance with the Operative Remediation Plan/Program, and paid remediation costs (HRK 125,000).
- Fracture of the Stružec-Sisak oil pipeline at Topolovec. About 100-200 litres of oil spilled onto private property and caused damage to farmland. INA paid the remediation costs (HRK 50,000), and took measures in accordance with the Operative Remediation Plan/Program.
- Stationary-source monitoring was not conducted at the Okoli plant. Monitoring performed in 2003 indicated that nitrogen-oxide emissions exceeded the permitted threshold over 3 times. It is necessary to monitor air emissions from stationary sources of power greater than 0.5 MW at least once a year. The appropriate measures shall be taken to reduce various emissions up to the limits allowed by Jan 1, 2009.

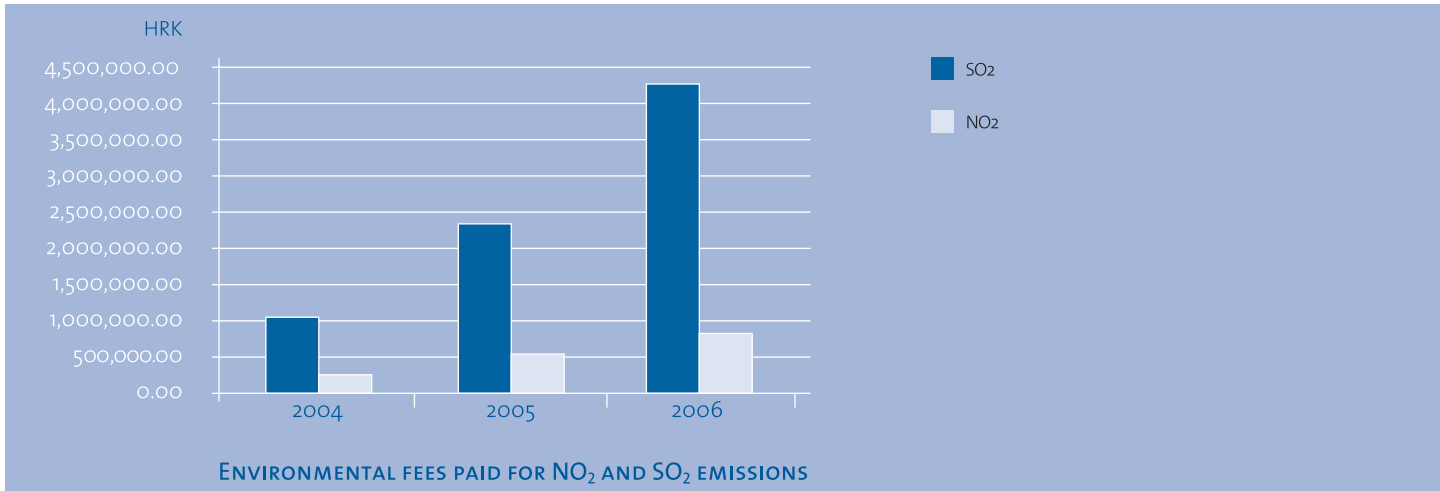
## ENVIRONMENTAL FEES

### 6.26

In 2006, INA paid HRK 144,200 for non-hazardous waste, which is required of all legal persons for the disposal of non-hazardous waste at the relevant dumps. The fee for hazardous waste is paid for produced, but not treated or exported waste. Since we deliver all our hazardous waste to authorized processors, we pay no environmental fee for hazardous waste.



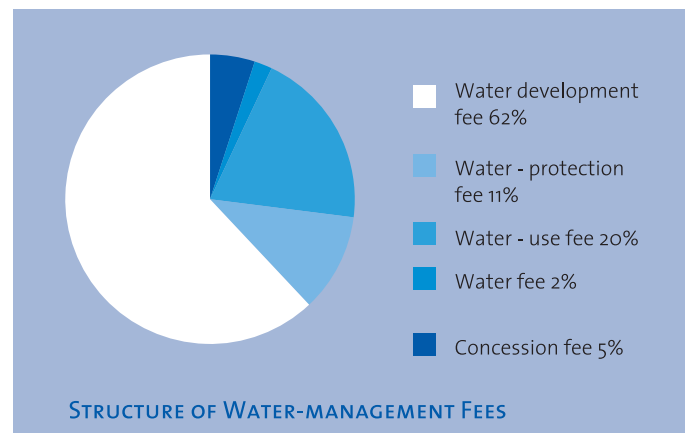
In 2006, our environmental fee for SO<sub>2</sub> emissions amounted to HRK 4,464,245, and HRK 1,005,910 for NO<sub>2</sub>.



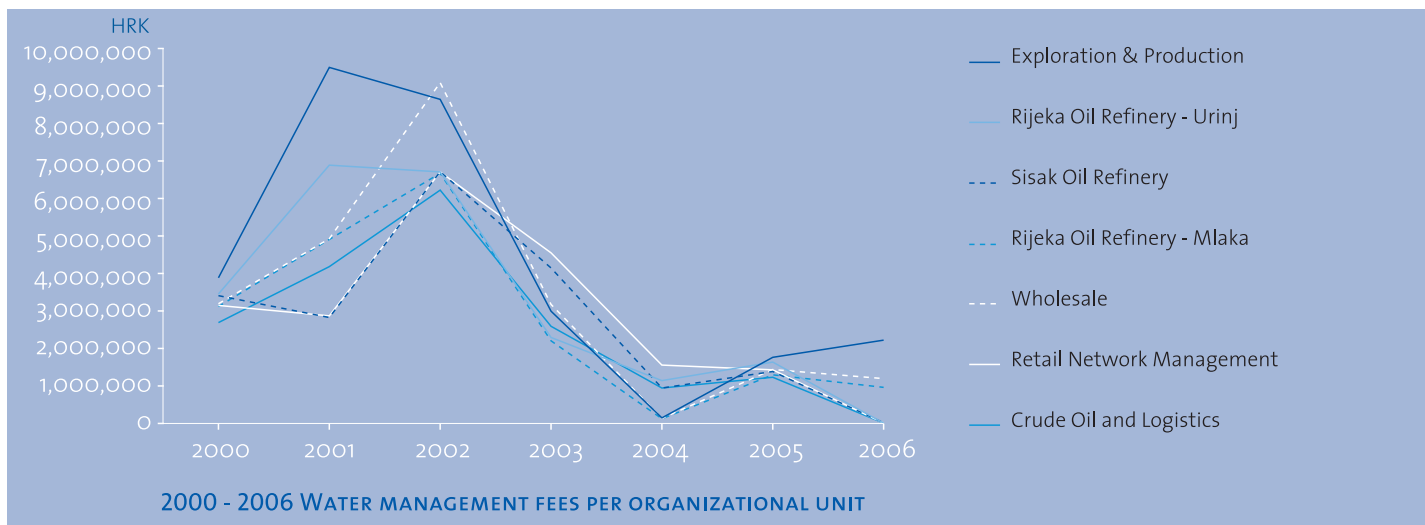
In our business and operations in 2006, we were charged with four types of water-management fees:

1. Water-use fee - based on the water volume used
2. Water-protection fee - based on the volume and pollution level of discharged water
3. Water fee - a one-time payment for construction of open or closed facilities (by volume of newly constructed facilities), and depends on the facility's location and type
4. Water development fee - replaces the previous water-basin fee

Total water-management fees paid by INA in 2006 amounted to HRK 29,156,907, of which 62% accounts for the water development fee. The Sisak Oil Refinery paid the highest share (63%) in total water management fees.







**SOURCES:**

- INA d.d. 2006 Balance Sheet
- INA-Glasnik, No. 1873, April 25, 2006
- Waste Register, INA, 2006
- Emissions Register, INA, 2006
- Water Discharges Register, INA, 2006
- [www.cro-nen.hr](http://www.cro-nen.hr)
- [www.iucnredlist.org](http://www.iucnredlist.org)
- Environmental Protection Act, Official Gazette 82/94



**Social Aspect**

# SOCIAL ASPECT

## **LABOUR PRACTICES AND DECENT WORK**

INA's goal is to employ young highly educated people who are prepared to take on the challenges of every-day work at our company, and continuously gain new knowledge required in our work processes. Incentive severance measures are used to stimulate outflow of older employees.

The Collective Agreement and Labour Regulations of INA regulate the working conditions, employer and employee rights and obligations, employee dignity protection, wages, and other work-associated issues.

All applications for employment are submitted to our Personnel Department of the Human Resources Sector, which is also in charge of all other employment-related affairs.

In accordance with the Labour Act, we have in place clearly defined procedures for the exchange of information, consultations, and negotiations between the management and employee representatives in regard to issues of mutual interest. Before passing any decision relevant to the status of our employees, the management consults with the Union representative, especially in the process of developing labour regu-

lations, operational changes, or redundant labour management programs.

Several regulations govern internal communication and employees' participation in management, of which some are specific to certain organizational units.

Provisions are made for two-way communication - down from management to employees - and up from employees to management, respecting hierarchy. Management regularly informs employees on the business management policy, the set goals, and the tasks, plans and rules for the attainment of these goals. Employees-to-management communication is achieved through reports on plan and goal realization. Information regarding the efficiency of the business management system includes defined process non-conformities. The management responds to queries of interested parties by using the internal communication procedure to consult with the relevant officer or to authorize the relevant officer to communicate directly.



#### Labour/Management Sources of Information

- INA Glasnik (fortnightly)
- INA Časopis (magazine)
- Internal newspapers -RNR info
- INA info
- Intranet
- Internal regulations, decisions
- Management/union meetings
- Business meetings
- Director/worker individual talks
- Focus groups
- INAŠ - union bulletin
- SING - union bulletin
- Sindikalna riječ - EKN bulletin of Rijeka
- Meetings with the Board president and union representatives
- Meetings with individual Board members
- Meetings with individual Sector directors
- Meetings with the director of Human Resources





## **OCCUPATIONAL HEALTH AND SAFETY**

Occupational health and safety activities also include work and fire safety. Mainly they are implemented through:

- The HSE Work Group
- Advisory bodies (Central Occupational Safety Committee, Occupational Safety Committees at micro-organizational level, and the Occupational Safety Subcommittee of individual macro-organizational units, such as technological process, sites or regions).

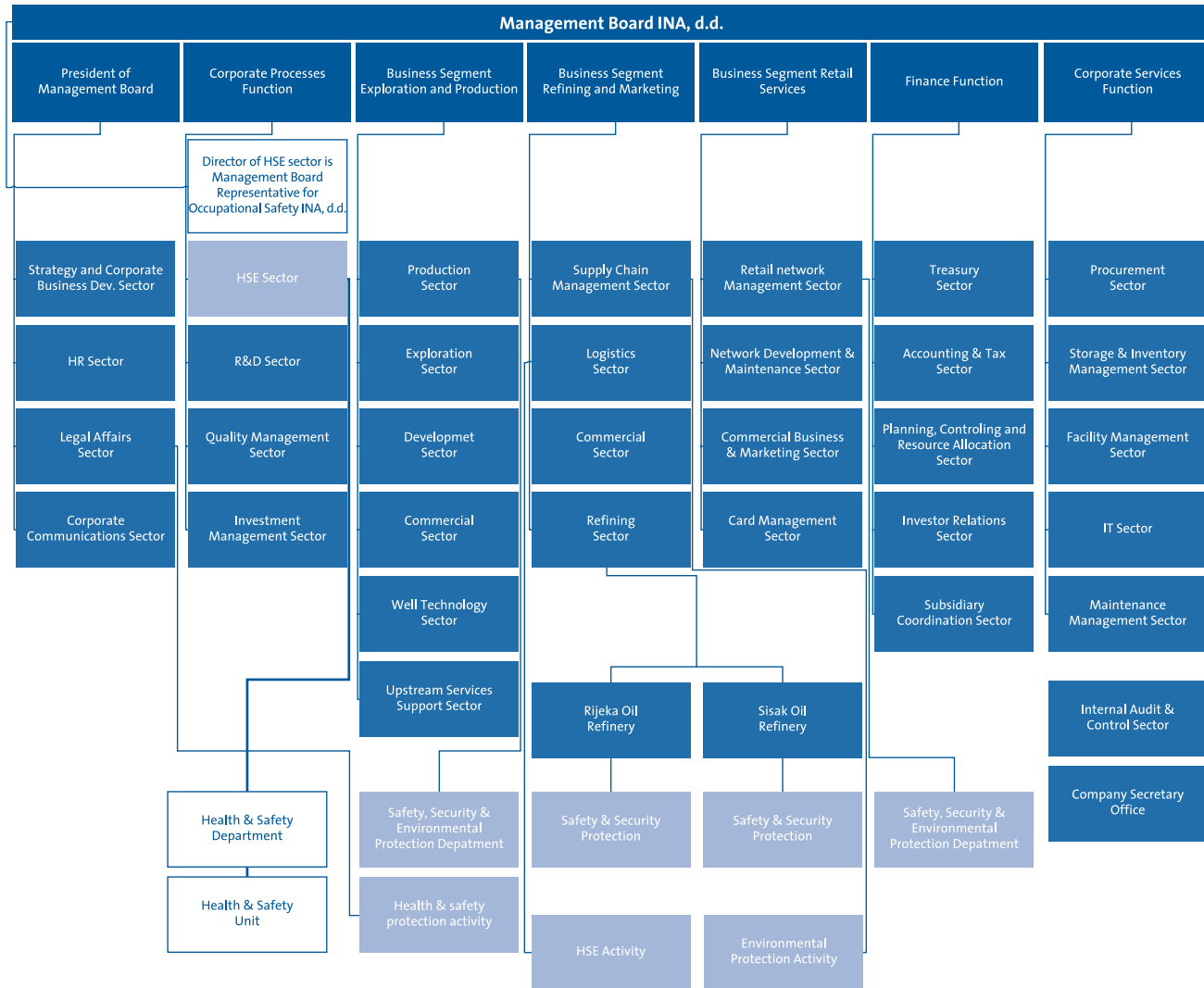
Pursuant to the Occupational Safety Act, the director of our corporate HSE Sector is appointed by the INA Board to discharge activities regarding occupational safety.

The health and safety system compliant with OHSAS 18001 specifications has been set up in our Exploration & Production Division, the Rijeka Oil Refinery, the Sisak Oil Refinery, Maziva Rijeka, while in our Retail Division it is still in the introductory phase.

## **TRAINING AND EDUCATION**

The Human Resources Sector is in charge of conceiving and organizing educational programs, such as computer courses (ECDL), education, professional training according to the business management system (ISO 9001, ISO 14001 and OHSAS 18001), safe-work training, various levels of English courses, professional lectures on new and existent national and EU legislation regarding HSE (waste, water management), oil and gas exploitation, oil terminals, LPG terminals, underground storage facilities, computer-related health risks, project management courses, improvement of presentation skills, seminars for employees working on energy-market-related jobs, seminars on stress management, training for storage-facility management, as well as business schools (EMBA), under-graduate and post-graduate studies.

CORPORATE HSE Co-ORDINATION (DECEMBER 31, 2006)



## DIVERSITY AND EQUAL OPPORTUNITY

INA abides by the principle of offering equal employment opportunity to everyone, in compliance with the Constitution, the Labour Act, and other relevant regulations of the Republic of Croatia, as well as with the defined goals of our Human Resources Management Policy.

The Collective Agreement and Labour Regulations of INA, as well as other internal documents regulate workers' rights and obligations.

Implementation of equal opportunity is monitored by adopting

and applying relevant business management documents, such as:

- The Human Resources Management Procedure
- Process list of the Personnel Department
- Records of process goal assessment and attainment
- Internal Audit Procedure

The worker's unions actively keep track of the status of disabled workers, women (women's activity groups in all three unions), and war veterans. The unions acknowledge INA's efforts in taking responsibility for the special needs of disabled workers when appointing them to jobs, as well as the positive role of the social workers in each organizational unit supporting the special needs workers.

## LABOUR PRACTICES AND DECENT WORK INDICATORS

### EMPLOYMENT

#### 7.1 EMPLOYEE STRUCTURE (DECEMBER 31, 2006)

Educational qualifications	Previous month total	Structure										Total workforce end of current month	
		Permanent employees -total	of which				Temporary employees total	of which					
			Working abroad	Part time	Disabled workers	Disabled war veterans		Working abroad	Part time	Disabled workers	Disabled war veterans		
1	2	3	4	5	6	7	8	9	10	11	12	13	
D.Sc. VIII	18	18	0	0	0	0	0	0	0	0	0	0	18
M.Sc. VII/2	111	110	6	0	0	0	0	0	0	0	0	0	110
University degree VII/1	1,765	1,720	72	9	10	5	39	0	0	0	0	0	1,759
Associate degree VI	519	504	2	0	5	4	20	0	0	0	0	0	524
Highly skilled V	695	678	2	1	27	10	6	0	0	0	0	0	684
Secondary education IV	5,304	4,815	22	13	92	68	497	0	0	0	0	0	5,312
Skilled III	1,354	1,329	0	1	52	13	20	0	0	0	0	0	1,349
Elementary education II	194	193	0	0	3	3	0	0	0	0	0	0	193
Semi-skilled II	56	57	0	0	1	3	0	0	0	0	0	0	57
Low-skilled I	179	177	0	0	3	0	0	0	0	0	0	0	177
<b>TOTAL</b>	<b>10,195</b>	<b>9,601</b>	<b>104</b>	<b>24</b>	<b>193</b>	<b>106</b>	<b>582</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,183</b>

As a rule, INA employs workers in the Republic of Croatia, however, a certain number of workers (104) were employed through our Exploration and Production branches in Libya and Syria.

### 7.2 EMPLOYEE TURNOVER IN 2006

Mostly older workers are terminating their employment under the incentive severance measures, while we continue to employ young, highly educated staff. Our Retail Division has a high turnover of workers due to the fact that our petrol stations employ temporary workers during the tourist season or as replacements for absentees.

	<b>2006</b>
NEW EMPLOYMENTS - TOTAL	338
OF WHICH TRAINEES	32
ATTENDANTS	221
OF WHICH ATTENDANTS - PERMANENT	7
ATTENDANTS - TEMPORARY	214
<b>NEW EMPLOYMENTS AT INA IN 2006</b>	

	<b>2006</b>
TERMINATED EMPLOYMENTS - TOTAL	445
OF WHICH PERMANENT EMPLOYMENTS	323
TEMPORARY EMPLOYMENTS	122
<b>TERMINATED EMPLOYMENTS AT INA IN 2006</b>	

### 7.3

Under the Collective Agreement and Labour Regulations, our workers are entitled to certain benefits, which are otherwise legally optional. These benefits have been a standard part of all our collective agreements so far.



## LABOUR/MANAGEMENT RELATIONS

### 7.4

Our Collective Agreement covers all our workers, permanent or temporary.

INAŠ - Worker's Union of INA and INA Zagreb Subsidiaries	SING - INA and Oil Economy Worker's Union	EKN - Chemical, Energy, Mine, and General Worker's	Total
3,981	3,978	1,684	9,643
<b>NUMBER OF UNION MEMBERS IN 2006</b>			

## HEALTH AND SAFETY

### 7.5

We have 57 employees working on occupational safety and fire safety jobs, half of which simultaneously carry out occupation-

al and fire safety jobs, while a part of them also carry out environmental protection jobs.

Organizational Unit	Number of workers
Management Board, Corporate Functions	5
Exploration & Production Division	22
Logistics Sector, Commercial Affairs Sector, Supply Chain Management Sector	2
Rijeka Oil Refinery	6
Sisak Oil Refinery	4
Retail Network Management Sector	18
<b>Total:</b>	<b>57</b>
<b>OCCUPATIONAL SAFETY AND FIRE SAFETY WORKFORCE IN 2006</b>	

### 7.6

Occupational safety and security is one of our corporate priorities. In the past ten years, INA has recorded no occupational disease or fatality. Up to the year 2006, we registered a continuous decline in on-the-job injuries, followed by a slight increase of 3.7% which only involves minor injuries. In 2006 there were no expensive injuries.

In 2006, we lost 832,279 hours on account of sick-leave, of which 415,574 hours were covered by INA, and 416,705 hours by health insurance.

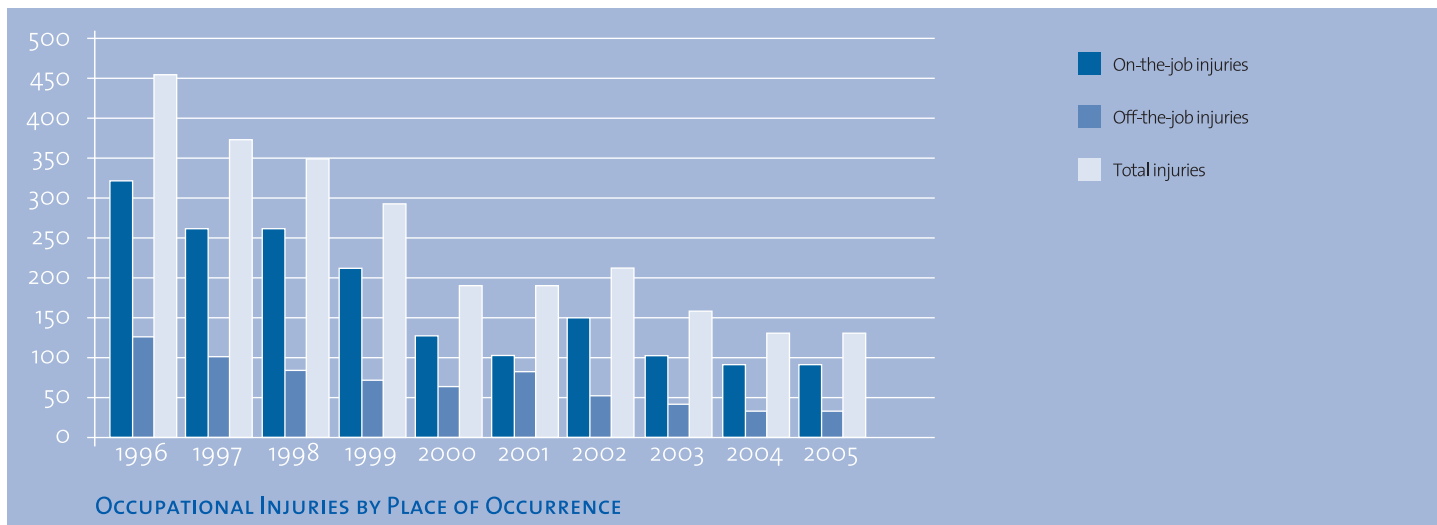
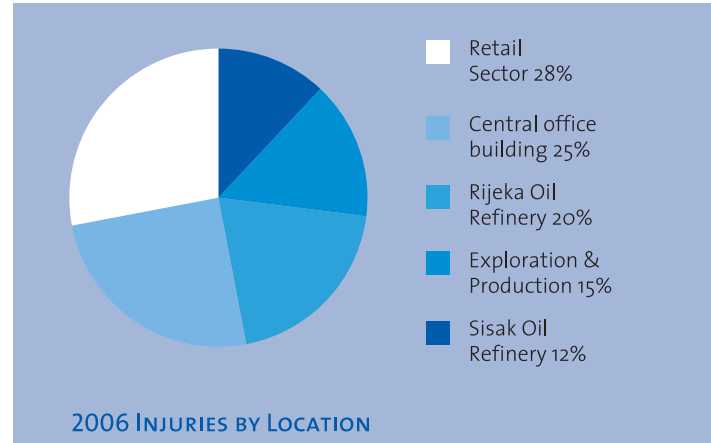
### 7.7

Training, as a special rule of occupational safety, is the most important preventive activity required for performing occupational safety and fire safety jobs. This implies providing a healthy and safe working environment for all persons, who on whatever basis, are working in INA premises. More and more of our workers have come to understand that safety, apart from complying to rules and regulations, also means a healthy and safe working environment.

Where basic occupational safety regulations are inadequate for the elimination of hazards or risks (established by a risk assessment), compulsory training is held according to the specific requirements of the organizational unit involved.

In 2006, our general and specialized safety training involved 4,568 workers. A total of 36 demonstration tactical drills were carried out aimed at testing fire-fighting techniques and the training level of the employees.

By taking care of our employees' health and by improving working conditions, we create a healthy working environment.





The month of May is traditionally fire-safety month. This is a month of numerous lectures and drills in fire prevention and effective fire safety, involving workers from all organizational units of INA.

In April 2006, we marked the World Day for Health and Safety at Work with a series of professional lectures and a blood-pressure measuring campaign, especially emphasizing the importance of being informed when it comes to preventive healthcare.

### 7.8

Pursuant to our collective agreement and the funds allocated for 2006, INA signed an agreement referring all workers to annual physical examinations.

INA has three active workers' unions: the INA and Oil Economy Workers' Union (Croatian acronym: SING), the Workers' Union of INA and INA Zagreb Subsidiaries (Croatian acronym: INAS), and the Chemical, Energy, Mine, and General Workers' Union (Croatian acronym: EKN). All three unions participate in the formulation and implementation of the Collective Agreement.

INA is one of the pioneers in collective bargaining in Croatia. This year we celebrate ten years since our first collective agreement, which set forth new standards in the Republic of Croatia, e.g. the forty-hour week. This agreement was the basis for all subsequent negotiations between management and the unions, aiming at improving the material and other status of our employees.

Our healthcare program includes annual physical examinations, constant medical care for workers with special working conditions, and medical treatment and rehabilitation in our Naftalan therapeutic complex.

Article 78 of the INA d.d. Collective Agreement requires the Management to undertake all measures necessary to ensure employee health and safety, including prevention of work-related risk.

Article 81 of the INA d.d. Collective Agreement requires the Management to provide annual physical examinations for all employees or private health insurance in the amount of the funds allocated for that purpose.

We signed a voluntary health insurance policy for our workers, which provides them faster and better medical services.

Article 92 of the INA d.d. Collective Agreement requires the Management to provide special healthcare (treatment, active recreation) for special-needs workers (disabled war veterans, invalids).

## TRAINING AND EDUCATION

### 7.9

Type of education / training	In-house / Out-of-house	Number of employees		
		2006	2005	2004
1	2	3	4	5
1. Introductory training	In-house		86	26
2. Internship	In-house	154	174	99
3. Safe-work training		1,404	988	744
4. Studying while working	Out-of-house	418	301	279
5. Professional training	In-house / Out-of-house	2,291	2,511	1,841
6. Additional training - computer, foreign languages, middle and top management, quality management system	In-house / Out-of-house	6,660	5,888	6,933
7. Practical training and specializations		23	0	11
8. Scholarships for secondary-school and university students (Top Scholarships + scholarships to 3 Syrian students)		13	13	10
9. Practical training for secondary-school and university students	In-house	712	1,110	686
<b>Total</b>		<b>11,675</b>	<b>11,071</b>	<b>10,629</b>

#### EMPLOYEE TRAINING AND EDUCATION

Note: Since a significant number of our employees had to attend SAP training, many of the planned programs and courses for the year 2006 remained unrealized (the table above does not show the number of employees that passed SAP training)

### **7.10**

Regarding computer training, an extensive ECDL course is being held for 3,000 of our employees, INA being one of the first companies in Croatia to organize this course.

INA was awarded the Crystal Globe by the Croatian Information Technology Society for its contribution to computer literacy and for introducing ECDL to Croatia.

An increasing number of employees are studying while working full time, which is consistent with our set goal to provide continual training of young, highly educated staff - new-gen-

eration senior executives ready to take on the challenges of modern-day business.

The purpose of continually educating our employees is not only to raise their level of knowledge and job performance in all stages of the work processes, but also to elevate their awareness in regard to human health and safety, environmental protection and preservation, as well as business ethics.

### **7.11**

Pursuant to our Labour Regulations, the performance of every employee is evaluated regularly.

## DIVERSITY AND EQUAL OPPORTUNITY

### 7.12

The percentage of women in the workforce is relatively low due to a majority of jobs being traditionally men's jobs.

Date	Total workforce	Women	Percentage of women (3/2)
1	2	3	4
Dec 31, 2006	10,183	2,529	24.84
Dec 31, 2005	10,290	2,544	24.72
Dec 31, 2004	10,444	2,527	24.2
Dec 31, 2003	10,325	2,497	24.2
Dec 31, 2002	10,903	2,474	22.7
Dec 31, 2001	13,537	2,910	21.5

**NUMBER AND PERCENTAGE OF WOMEN IN THE WORKFORCE**

Date	Employees with special contracts (managers)	Women	Percentage of women (3/2)
1	2	3	4
Dec 31, 2006	65	16	24.62
Dec 31, 2005	63	17	26.98
Dec 31, 2004	57	13	22.81
Dec 31, 2003	40	4	10.0
Dec 31, 2002	38	5	13.2
Dec 31, 2001	40	3	7.5

**COMPOSITION OF GOVERNANCE BODIES (INCLUDING THE MANAGEMENT BOARD) - MEN-TO-WOMEN RATIO**

### 7.13

The men-to-women basic salary ratio by employee category is 1:1.

## HUMAN RIGHTS

### INVESTMENT AND PROCUREMENT PRACTICES

Our procurement policy is based on transparency, flexibility, rationality, and compliance. INA's procurement process allows for mutually beneficial relations with suppliers with the aim of creating added value for both parties, which gives pleasure to all participants in the procurement process. In our business relations with all our suppliers and contractors, we are guided by the general principles of equality, fairness, and impartiality in the bidding process, thus encouraging market competition.

### NON-DISCRIMINATION

Our Labour Regulations, as well as our Code of Business Conduct and Ethics protect our employees from any form of racial, sexual, marital, age, language, religious, or political discrimination, as well as discrimination regarding any other convictions, national or social origin, financial status, birth status, social position, membership or non-membership in political parties or unions, or physical or mental impairment, aimed at or actually violating employee dignity and thereby causing fear or producing a hostile, demeaning or disrespectful environment.

### FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

INA employees are free to associate in unions in compliance with international conventions, legal regulations, our Collective Agreement and Labour Regulations. There are three trade unions active in INA: the INA and Oil Economy Workers' Union (SING), the Workers' Union of INA and INA Zagreb Subsidiaries (INAŠ), and the Chemical, Energy, Mine, and General Workers' Independent Union (EKN) All three trade

unions were organised in INA at the beginning of the 1990's following the Croatian society's transition to democracy. More than 90% of INA employees, with the exception of managers, are union members. Our employees participate in the decision-making process about issues regarding their economic and social rights and interests, in the manner and terms as set out in the Labour Act, our Collective Agreement and Labour Regulations.

The unions independently determine methods of operation and representation of their members' interests, as well as independently appoint their representatives or delegates. Each union may appoint or elect one union representative for every 500 of its members; one more representative respectively if the number of its remaining members exceeds 250. These union representatives protect and promote member rights and interests.

Since INA has no established labour body, these duties are discharged by the union representative appointed every four months alternatively by all three unions. Since the beginning of collective bargaining at INA (1996), provisions of the Collective Agreement apply only to union members. However, the Management extends these provisions to all other non-union members by separate corporate resolution. During the effective period of the Collective Agreement, a committee comprised of three Management representatives and three union representatives is appointed to interpret the collective agreement. This committee passes decisions by consensus, and meets as required (every three months on average). The key challenge of this committee is effecting its decisions at lower organisational levels. It is therefore suggested that the committee should systematically inform the relevant officers about the its mandate and obligations to effect its decisions.

## CHILD LABOUR

INA does not employ under-age workers. However, there is a tradition of employing our workers' children (secondary school and college students) at our petrol stations over the summer holidays washing windshields. This way, they earn their pocket money by accepting tips from our customers. They are engaged on their own behalf and on their own account, by approval of INA, to perform these jobs without pay.

Each employed child is also given instructions on safe practices and conduct at petrol stations as well as information regarding occupational safety and fire safety. In addition, each child is insured against work injury.

As a rule, persons of age are employed for these jobs, while minors no younger than 16 may be employed from June 15 to September 9 only with written permission from their parents, and only for a period of two weeks. This policy of youth seasonal work sets a higher standard in comparison to legal regulations, where the minimum age for employment is 15, as prescribed by the Labour Law of the Republic of Croatia, and Article 3 of the C138 International Worker Minimum Age Convention from 1973.

## DISCIPLINARY AND GRIEVANCE PRACTICES

Our workers' rights, duties, and responsibilities are regulated by the Labour Act and the Collective Agreement, which determines more favourable terms, e.g. longer notice periods than those defined by the Labour Act.

If a worker considers INA to have violated any of his/her rights, including those defined by the Collective Agreement, he/she may, within a determined period starting from the date of the decision by which his/her rights were violated, request fulfilment of those rights. If INA fails to respond to the grievance

within the determined period, the worker is entitled to appeal to a court of jurisdiction.

The disciplinary procedure for a worker in violation of his/her duties includes the following:

- A written warning of duty violation with implications for dismissal;
- If the worker persists in violating his duties, the employer may issue a regular dismissal with an appropriate notice period;
- Exceptionally serious violations are resolved with dismissals effective as of the date the worker is notified of the dismissal in writing.

Previous to initiating a regular dismissal procedure, due to a worker's misconduct, INA is required to warn the worker of his/her duties, and of possible dismissal if he/she continues to violate duties. Likewise, prior to regular or immediate dismissal due to a worker's misconduct, the worker is entitled to state his defence. The employer is required to notify the union of the intended dismissal, but is not bound to the union's opinions. Acting as the labour counsel, the union representative should be informed by the employer of the intended dismissal. In case of dismissal, the worker is entitled to submit to the employer a request for the protection of his/her labour rights, and if the request is denied, the worker is entitled to appeal to any court of jurisdiction. In 2006, INA cautioned 98 employees, issued 40 regular dismissals due to misconduct, and issued 14 immediate dismissals.

We also have a committee appointed for receiving and solving employee dignity-related grievances.

Our Human Resources Sector is in charge of aspects of human rights.



## HUMAN RIGHTS INDICATORS

### 7.14

In 2006, no mobbing complaints were received.

### 7.15

No operations in INA have been identified as a threat to exercise freedom of association and collective bargaining.

### 7.16

In the summer months of 2006, our petrol stations engaged about 7,000 children to wash our customer's windshields and thus earn pocket money by accepting their tips. No injury or accident was recorded.

### 7.17

Our Collective Agreement defines that overtime work cannot be assigned to disabled workers without their consent, while night shifts cannot be assigned to workers under the age of 18, expectant mothers or mothers with children under the age of 2, single parents with children under the age of 5, a parent of a disabled child, a disabled worker, a women worker over the age of 55 or a male worker over the age of 60.

## SOCIETY COMMUNITY

In order to fulfil our mission and achieve our vision, it is essential that we commit to the expectations and goals of all interest parties, including the communities in which we operate. Therefore, one of our core values is to maintain awareness of the INA brand through close cooperation with communities, respecting their cultural, national and regional characteristics. INA adjusts to the specific needs of all its host communities, as well as supplies the population with energy and lubricants.

Our relations with our suppliers of oil, gas, lubricants, LPG and other commodities and services are correct, while we give priority to domestic companies.

We continue to develop a partnership relation with the local community and general society with whom we have open and honest communication. We also regularly report on our CSR activities, in order to provide the public and all our key stakeholders a complete insight into the direct and indirect effects of our operations on the economic, social, and environmental aspects of life.

INA also helps the community in humanitarian, cultural, educational, sport, environmental, healthcare, and scientific projects in the form of donations and sponsorships, as well as investments into a series of non-profit activities essential to the overall quality of life.

We also encourage our workers to volunteer their time and skills to social, healthcare and environmental campaigns or organizations.

Our business management defines the Corrective Measures Procedure and the Preventive Measures Procedure. In case of any environmental impact deriving from our plants, the local community is notified immediately and remedial action is taken. INA's permanent interest is to gain the trust of the local community with our rehabilitation programs and schedules aimed at eliminating the damaging effects on human health and environment.



### **CORRUPTION**

Our Code of Business Conduct and Ethics among other includes, anti-bribery and anti-corruption policy.

The Internal Audit and Control Sector is a macro-organisational unit of INA, which audits business activities by order of the Management and Supervisory Boards in accordance with the provisions of Article 38 of the Organisational Structure of INA. The Sector's Director receives all reports of illegal activity, including cases of bribery and corruption. If a "case" can be handled by internal control, a work-order is issued and a report compiled of the audit performed. If internal control fails to find evidence, the case is passed on to the Business Crime Department of the Ministry of Internal Affairs.

### **FREE MARKET COMPETITION**

Due to the presence of several other oil companies in the market, INA is exposed to free market competition, and operates in compliance with market competition regulations.

### **COMPLIANCE**

INA's business processes are compliant with national laws and regulations, and international legislation ratified by Croatia.

The Corporate Communications Sector is in charge of a series of promotional activities and communication with the public in the form of press releases, response to certain articles, notifications, explanations, TV broadcasts, etc. INA is ever more present at various fairs, professional gatherings (Fuel and Lubricants Symposium, International Gas Meeting). This sector also has the role to conceive and implement promotional campaigns for our retail outlets.

INA has set up an Investor Relations Sector with the task of regulating communication with the Zagreb and London Stock Exchanges. All material information disclosed at meetings with analysts or investor representatives must be disclosed simultaneously to the stock exchanges and the public in order to ensure free access to information

## **SOCIAL PERFORMANCE INDICATORS**

### **7.18**

Our Code of Business Conduct and Ethics includes the anti-bribery and anti-corruption policy. It is available to all employees on the Intranet.

### **7.19**

INA influences public and business policy through business associations in Croatia and abroad. INA is member of national and regional associations of Mediterranean states dealing in energy and environmental protection, while national associations give us the opportunity to act globally.

Our employees are members of national and international expert associations and active participants in congresses, symposia, workshops, and other gatherings worldwide. By acting through these associations, our employees participate in the creation and enactment of policy and legislation.

## **PRODUCT RESPONSIBILITY**

INA standards incorporate international and European standard requirements. The government of the Republic of Croatia passed the Decree on Liquid Petroleum Fuel Quality, in the preparation of which INA took part. The decree prescribes the quality characteristics of liquid petroleum fuels in compliance with European directives. Since INA is unable to fulfil all the prescribed limit values, we were granted our request to release on the domestic market a certain quantity of non-compliant fuels.

INA is constantly adjusting its fuel quality to EU requirements. This especially regards the reduction of the sulphur, benzene, and aromatics content, as potentially dangerous fuel components.

Since January 1, 2006, leaded petrol is withdrawn from the Croatian market.

INA implements health and safety measures at its petrol stations through regular cleaning and maintenance of the traffic area (forecourt), regular maintenance and technical supervision by authorised institutions, providing conspicuous operating instructions for petrol-station devices and equipment, and warnings of prohibited actions/behaviour at petrol stations.

All our commercial products have appropriately prepared Technical Safety Data Sheets containing basic information on the product, risk data, recommended safety precautions, transportation and emergency instructions. Danger signs are also included on the packaging.

INA develops standards based on verified scientific, technical and practical results, with the objective to provide guidelines and features for our products, processes, services, human health and safety, in the aim to achieve the highest possible degree of order in particular circumstances.

In order to produce EURO 5 fuel, in 2006 we launched our refinery modernization project worth more than one billion dollars.

Our commitment to the quality and safety of our products is emphasized in our Quality Management Policy.

The business policy of our Retail Network Management Sector includes all three systems - quality assurance, environmental management, and health & safety. Implementation is in progress of the OHSAS health and safety management system. Product responsibility is distributed at the highest corporate



level among the executive directors of our Exploration and Production, Refining and Marketing, and Retail Divisions.

INA implemented several provisions of the new Consumer Protection Act to its operations even before its adoption. Although not legally obligated, we appointed a consumer complaints committee in our Retail Sector with the basic objective to promote partnership relations with our customers and other stakeholders. The committee comprises representatives from our Retail Sector, the Croatian Energy Regulatory Agency, the Consumer Society, and the Consumer Association. Its main role is to propose and perform activities required to inform and educate our customers, and thereby gain a higher level of trust.

Internal procedures regarding monitoring, corrective and preventive measures are included in the business management system, in accordance with internationally recognized ISO standards.



## PRODUCT RESPONSIBILITY INDICATORS

### 7.20

#### PRODUCT AND SERVICE LABELLING

Awareness of the potential threats we pose to the environment with improper refining processes, transportation or storage of our oil products, and application of strict European standards, compels us to control all work processes rigorously. Along with fuel, INA produces a series of different commercial products such as motor and industrial oils, lubricants, greases, and additives, most frequently marketed in plastic packaging. Product labelling is compliant with legal regulations and professional standards. Each label contains the product's trade name, its basic technical characteristics and use instructions, and conveys an attractive promotional message. The label contents are multi-lingual, while labels on export products are adjusted to the standards of the foreign market.

The product labels on most of our lubricant assortment are registered with the State Intellectual Property Office as industrial designs, while the product names are registered as trademarks.

Our Corporate Communications Sector and the marketing departments of Maziva Rijeka and Sisak implement our corpo-

rate advertising policy based on relevant laws and internal regulations. The final design of advertisements is subcontracted with designers and marketing agencies.

In 2006, we had no incidents of non-compliance with regulations concerning product and service information and labelling. Moreover, there was no incident concerning health and safety impacts of our products or services, nor any complaints from relevant authorities.

### 7.21

#### CUSTOMER SATISFACTION

Our market surveys, which are performed by specialised agencies, guarantee respondents confidentiality of any given information.

Each of our prize competitions and games is subject to a set of rules that is verified by the Croatian Ministry of Economy. By playing the game, the entrants agree to these rules, which also define disclosure of the winner's identity by releasing his/her personal information, as well as using the information and the person for advertising purposes.

Every year we conduct a telephone survey on a random sample of more than one-thousand people from all over the country in

order to determine customer's satisfaction. The results not only help us to correct our advertising campaigns, eliminate any inadequacies, but also are used in the analysis of our future market appearances. So far, all our survey results have mostly been positive, confirming our good business practices.

### INA TOLL-FREE TELEPHONE NUMBER

INA was one of the first companies in Croatia, which in 1997 installed a toll-free telephone line for direct communication with our customers and the wider public.

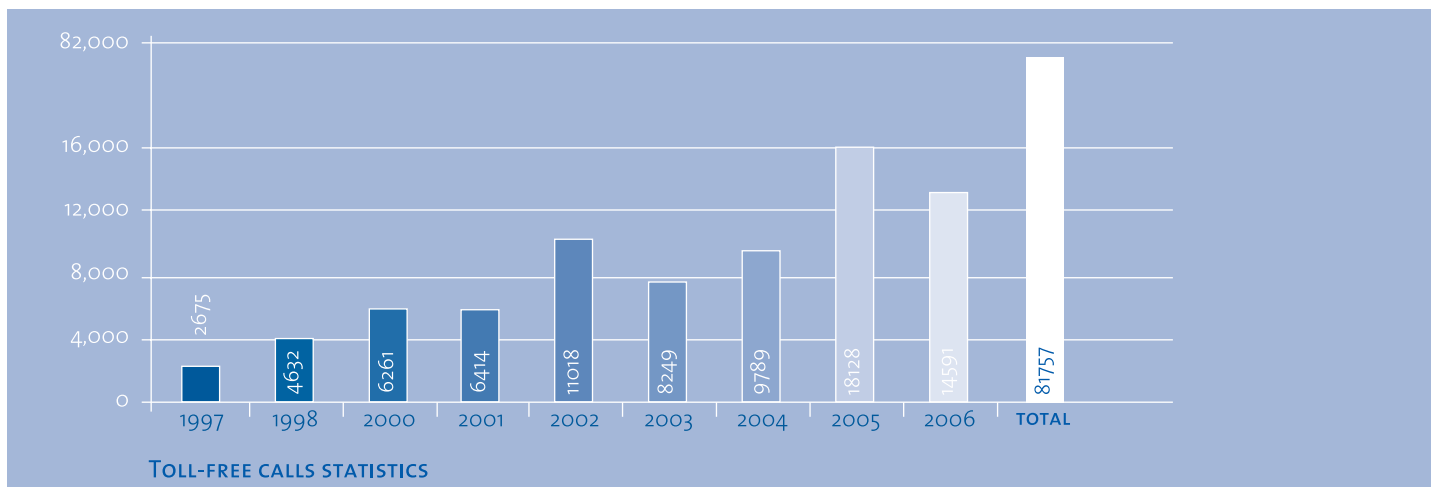
The average number of incoming calls per day has increased from seven in 1997 to 50 in 2006. The number of calls increases during prize games at petrol stations, after price changes, during the heating season (for supply of heating fuel), and other current events. The information officers operating the toll-free phone make their best to respond to each call promptly and efficiently. The issues not under their competence are immediately referred to the relevant department. The toll-free number is in service 24 hours a day, and during off-hours, calls

are automatically recorded. The primary rule of the toll-free number is that every call gets an answer with guaranteed privacy, since caller information should not be disclosed to third parties other than those taking part in rendering the information or dealing with the complaint.

According to the prescribed operating procedures of the INA toll-free number 0800-1112, weekly reports are compiled indicating typical calls throughout a certain period, which are submitted regularly to the management. Concerning complaints passed on to relevant departments, the weekly report offers information as to their resolution.

The highest number of calls were processed in 2005 due to our prize competition "Lucky Code" involving 1,000 prizes daily.

The permanent contact with our customers through the toll-free number indicates that calls seeking information are traditionally the most frequent, followed by complaint calls involving our services, product quality, deficient equipment, or tank-truck drivers.



## COMPLIANCE WITH ADVERTISING STANDARDS

### 7.22

Operation in an increasingly demanding and competitive market also requires an adequate advertising policy. In advertising, we comply to professional standards and ethics, the Consumer Protection Act, the Healthcare Act, and other relevant internal regulations.

The advertising of our products and related activities fall under the Marketing Communications Department of the Corporate Communications Sector. In accordance with our basic strategic goals, our vision and mission, the Marketing Communications Department presents the company through its business results and efficiency of its activities, products and services on both the national and foreign markets, with the aim to gain a position as a desirable partner. There is a permanent co-operation and association with buyers through promotional activities, campaigns, communication, surveys, notification of new products, services, purchasing terms, sponsorship, and cause-related activities. Presentation of the company's concern for the wellbeing of its

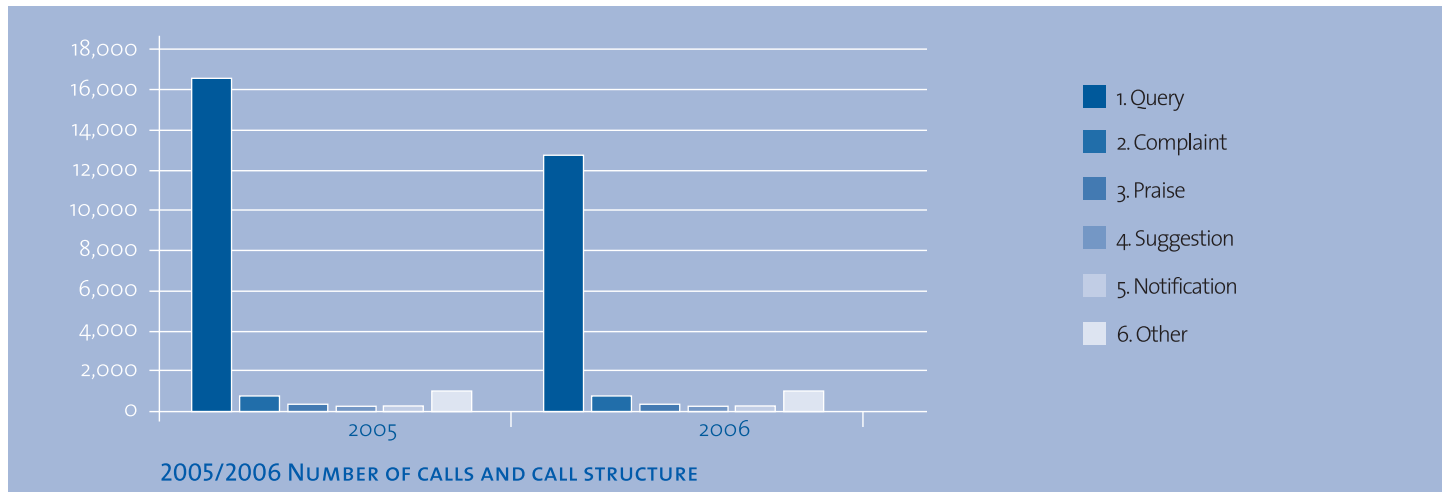
employees, health-care, safety, and the environment is actually just a small part of our advertising policy.

The advertising process starts with a request from a certain segment, and its basic guidelines are the basis upon which the Corporate Marketing Department designs the concept and media plan for advertising. Thereupon, the final version is adopted jointly and the campaign is launched.

Based on business plans of different segments, the Corporate Communications Sector collects their annual advertising requirements. After that the summed up requirements are transformed into a detailed annual plan of all advertising and promotional campaigns, fairs, public relations, and other.

### 7.23

No substantiated complaints were received in 2006 regarding breaches of customer privacy, or regarding non-compliance with marketing and advertising regulations.

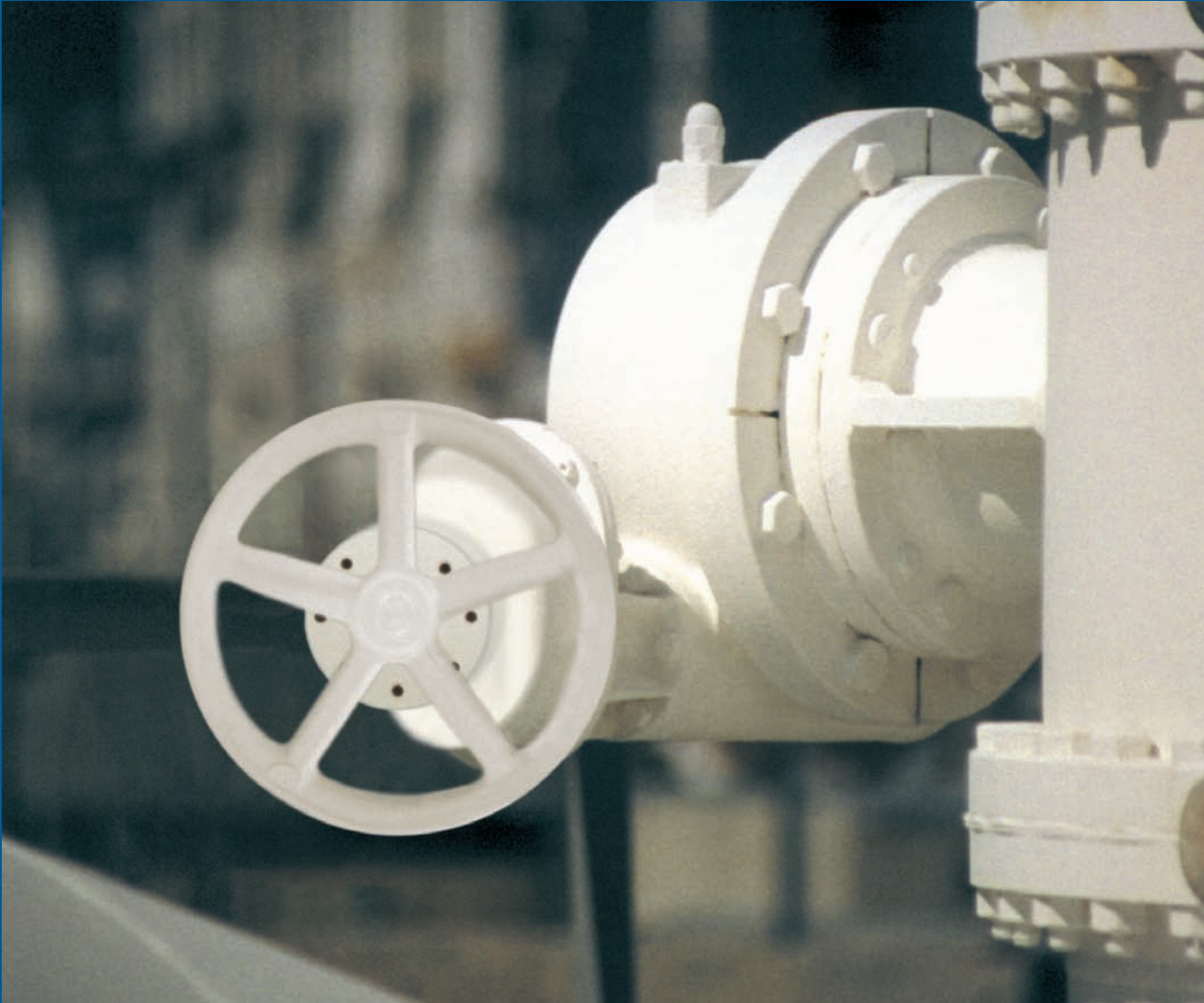




## SOURCES:

- Collective Agreement, INA, April 12, 2006.
- Labour Regulations of INA d.d., INA, September, 2006.
- Code of Business Conduct and Ethics, INA, January, 2007
- Authorizations for business correspondence, INA, May, 2003
- Communication in INA organizational units, INA, May 2006
- Personnel records
- Communication in Environmental Management, INA, December, 2001
- INA Employee turnover and structure, Dec 31, 2001, 2002, 2003, 2004, 2005, and 2006
- INA-Glasnik (fortnightly) No. 1887, Nov 28, 2006
- Liquid Petroleum Fuels Quality Decree, Official Gazette 53/06
- Consumer Protection Act, Official Gazette 96/03
- Health Protection Act, Official Gazette 121/03
- Public Procurement Act, Official Gazette 193/03
- Procurement of Goods and Contract Awarding Act, Official Gazette 142/97
- Market Competition Act, Official Gazette 48/95, 52/97, 89/98, 122/03
- Public Informing Act, Official Gazette 22/02
- Labour Act, Official Gazette 38/95; 54/95; 65/95; 17/01; 82/01; 114/03
- Occupational Safety Act, Official Gazette 59/96; 94/96; 114/03
- Fire Safety Act, Official Gazette 58/93
- Minimum Age Convention C138, Geneva, 1973
- Forced Labour Convention C29, Geneva, 1930
- Freedom of Association and Protection of the Right to Organise Convention, San Francisco, 1948
- Right to Organise and Collective Bargaining Convention C98, Geneva, 1949
- Abolition of Forced Labour Convention C105, Geneva, 1957
- Convention on Combating Bribery of Foreign Officials in International Business Transactions, OECD, Finance, Fiscal and Enterprise Agency, April 1998





**Appendices**

## LET INA KNOW

### REPLY CARD

(Your opinion is highly appreciated!)

1) Do you consider this report:

- a) Informative \_\_\_\_\_
- b) Fairly informative \_\_\_\_\_
- c) Uninformative \_\_\_\_\_

2) What in your opinion does this report lack?

\_\_\_\_\_

3) Do you consider the information useful?

\_\_\_\_\_

4) What information do you consider particularly useful and interesting?

\_\_\_\_\_

5) What could we do to improve the report?

\_\_\_\_\_

6) Evaluate the following features of the report from 1 to 5.

Note: 1 - very poor      5 - excellent

\_\_\_\_\_

- Substance
- Clarity
- Openness
- Credibility
- Goals

7) Do you wish to receive this report in future?

Yes      No

8) You are a:

customer-shareholder-employee-other firm-public

9) Your comments and suggestions:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

10) Your name and address:

\_\_\_\_\_

\_\_\_\_\_

Please send the completed reply card by FAX to:

**01/2381-694**

For further information, please FAX your contact information to us, and an INA representative will be pleased to contact you.

TOLL-FREE NUMBER FOR INFORMATION AND COMPLAINTS:

**0800-1112**



## REFERENCES - BIBLIOGRAPHY AND INDIVIDUALS

### BIBLIOGRAPHY

- INA Parent Company 2006 Balance Sheet  
State Bureau of Statistics  
INA 2004, 2005, 2006 Financial Report  
INA 2005 Annual Report, INA, 2006  
INA Glasnik, No.1886, Nov 14, 2006  
INA Glasnik, No.1888, Dec 19, 2006  
INA Glasnik, No. 1884, Oct 17, 2006  
INA Glasnik, No. 1885, Oct 31, 2006  
INA Glasnik, No. 1886, Nov 14, 2006  
INA Glasnik, No. 1887, Nov 28, 2006  
INA Glasnik, No. 1873, Apr 25, 2006  
INA Glasnik, No. 1883, Oct 3, 2006  
INA Glasnik, No. 1888, Dec 19, 2006  
INA Glasnik, No. 1894, Mar 27, 2007  
INA Employee turnover and structure, Dec 31, 2001, 2002, 2003,  
2004, 2005, and 2006  
Personnel Records  
Emissions Register, INA, 2006  
Water Discharges Register, INA, 2006  
Waste Register, INA, 2006  
INA Code of Business Conduct and Ethics, INA, 2007  
Collective Agreement, INA, Apr 12, 2006  
Communication in INA Organisational Units, INA, May 2006  
Convention on Combating Bribery of Foreign Officials in  
International Business Transactions, OECD, Finance, Fiscal and  
Enterprise Agency, April 1998  
INA Corporate Strategy 2006-2015, Dec 2005  
Decision-making Authorisation List, INA, 2005  
C138 Minimum Age Convention, Geneva, 1973  
C29 Forced Labour Convention, Geneva, 1930  
Freedom of Association and Protection of the Right to  
Organise Convention, San Francisco, 1948  
C98 Right to Organise and Collective Bargaining, Geneva, 1949  
C105 Abolition of Forced Labour Convention, Geneva, 1957  
Mezzoorganization of the Strategy & Corporate Business  
Development Sector, INA, 2004  
Basic organizational standards of INA d.d., INA, 2007  
INA Paid Wages Operational Report for December 2006, and  
Jan-Dec 2006  
INA Business Records, 2004, 2005, 2006  
Poslovni dnevnik, May 31, 2007  
INA Supervisory Board Rules of Procedure, INA, 2003  
INA Management Board Rules of Procedure, INA, 2005  
Authorizations for Business Correspondence Regulations, INA,  
May, 2003  
INA Labour Regulations, INA, Sept, 2006  
Labour Regulations, INA, 2004  
Ekonomске vijesti, No. 3449, Sept/Oct, 2006  
INA Prospectus, Merrill Lynch International, 2006  
INA's Articles of Association, Zagreb, 2003  
[www.cro-nen.hr](http://www.cro-nen.hr)  
[www.globalreporting.org](http://www.globalreporting.org)  
[www.ina.hr](http://www.ina.hr)  
[www.iucnredlist.org](http://www.iucnredlist.org)  
Decree on Liquid Petroleum Fuel Quality, Official Gazette 53/06  
Public Informing Act, Official Gazette 22/02  
Public Procurement Act, Official Gazette 193/03  
Procurement of Goods and Contract Awarding Act, Official  
Gazette 142/97  
Accounting Act, Official Gazette, 146/2005

Labour Act, Official Gazette, 38/95; 54/95; 65/95; 17/01; 82/01; 114/03  
Occupational Safety Act, Official Gazette 59/96; 94/96; 114/03  
Environmental Protection Act, Official Gazette 82/94  
Consumer Protection Act, Official Gazette 96/03  
Fire Safety Act, Official Gazette 58/93  
Market Competition Act, Official Gazette 48/95, 52/97, 89/98, 122/03  
Health Protection Act, Official Gazette 121/03

### **INDIVIDUALS:**

Asić Pukljak Rosana, Quality Management Sector  
Barnjak Dubravka, Health, Safety and Environment Sector  
Baršnik Ilonka, Planning, Controlling and Resource Allocation Sector  
Belinić-Gak Jadranka, Quality Management Sector  
Bertović Lidija, MSc., Health, Safety and Environment Sector  
Borić Jadranka, Quality Management Sector  
Čolak Dubravka, Human Resources Sector  
Draušnik Saša, Human Resources Sector  
Galić Anđela, Human Resources Sector  
Galić Mate, Logistics Sector  
Grubić-Đođo Josipa, Health, Safety and Environment Sector  
Grubišić Nikica, MSc., Strategy & Corporate Business Development Sector  
Jelić Mirko, Logistics Sector  
Kaluder Kamčev Ksenija, Strategy and Corporate Business Development Sector  
Katulić Ivana, Planning, Controlling and Resource Allocation Sector  
Kontent Željka, Human Resources Sector  
Krivdić Ivančica, Health, Safety and Environment Sector  
Lebinec Ivanka, Health, Safety and Environment Sector  
Limanović Darko, Corporate Communications Sector  
Lukšić Dijana, Subsidiary Coordination Sector  
Madunić Josip, Corporate Communication Sector

Majetić Boris, Chemical, Energy, Mine and General Workers' Independent Union  
Mikuš Božo, INA and Oil Economy Workers' Union  
Oračić Ljiljana, Planning, Controlling and Resource Allocation Sector  
Orešković Carmen, Storage & Inventory Management Sector  
Pejković Kamilka, Human Resources Sector  
Perić Mirko, Retail Network Management Sector  
Petričević Dragica, Health, Safety and Environment Sector  
Planinić Antonia, Human Resources Sector  
Pleša Željka, Human Resources Sector  
Poklepović Neven Pavao, Corporate Communications Sector  
Prokopec Mihaela, Human Resources Sector  
Rilović Maja, Workers' Union of INA and Subsidiary Companies  
Tabak Snježana, Human Resources Sector  
Tokić Anđelka, Accounting and Tax Sector  
Turković Davor, Production Sector  
Vinek Bojan, Corporate Communications Sector  
Zrnčević Lidija, Health, Safety and Environment Sector  
Zubčić Vladimir, Health, Safety and Environment Sector

## THIRD PARTY REVIEW

Zagreb, August 6, 2007

Upon introduction and many years of economic, environmental, and social responsibility reporting practice, INA d.d. now presents its 2006 Sustainability Report as its first integrated report on sustainable development and social responsibility. This step forward coincides with important events in INA's business activities, but also with the release of GRI G3 - the third generation of GRI sustainability reporting guidelines, the previous version of which served as the basis for INA's reporting. In this report, INA has applied methodological innovations, and has also improved its former practice in portraying and analysing the impact of its business practices on the company itself, as well as its key stakeholders. At the same time, the report presents an objective picture of the achievements and goals in the different segments of business and activities, but also the risks and problems confronting INA and the manner in which it tries to resolve them.

In 2006 as well, INA proved to be a stable, solid and profitable organization, aspiring toward gaining leadership in the Southeast European market of oil products, but also a company that integrates various social responsibility aspects into its organizational structures, processes, and relations with stakeholders. The year 2006 was marked by several major events that significantly influenced INA/stakeholder relations. With the continued privatisation, numerous citizens and institutional investors entered into its ownership structure, while the listing of INA shares on the stock exchange increased requirements in regard to reporting on major business events. The acquisition (in consortium with MOL) of the Bosnian-Herzegovinian petroleum company Energopetrol was a crucial step towards INA's positioning on the Southeast European

market, and strengthening of its partnership with MOL. However, it also resulted in increased requirements for capital, more efficient performance, and development of relations with a complex structure of stakeholders in Bosnia and Herzegovina. The present technological level of the Sisak and Rijeka refineries may represent an economic, environmental, and reputational risk - in addition to the risks associated with complying to regulations, market access, environmental protection, human health, as well as reflections of these problems in the media (e.g. the Sisak refinery air quality issue). Therefore, refinery modernization is of key significance to the company, and the broader environment.

Each year, since its first CSR report in 2003, INA has issued a detailed review of its economic, environmental and social performance separately. In this period, INA developed a system of monitoring various economic, social and environmental effects, thus providing the preconditions for a successful transition to the third generation of the GRI triple-bottom reporting standard. This report is based upon the principles, guidelines, and actual system of the GRI indicators. The organized monitoring of organizational structures and processes has enabled INA to meet the methodology requirements for the given application level (B+). This level denotes the real current reporting maximum of Croatian companies according to the new methodology, due to the fact that the adjustment period was too short to provide data monitoring for all the indicators required in the highest application level (A+). Because of its scope, this report ranks high within the B+ level, since the number of indicators with no available data is relatively small. The report parameters are clearly defined. Along with the foreword of the Board President, the report contains key information regarding corporate strategy (including mission, vision and core values), governance, relations with stakeholders, various corporate policies concerning social responsibility and

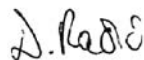
sustainable development, as well as organization, processes and procedures supporting implementation of the business strategy and particular policies.

In addition to the basic information on the management approach, the report deals with applicable GRI indicators, while available historical data have also been added to the data for 2006. Due to the new methodology, comparison with previous reports of INA and similar companies has also been provided here wherever possible.

Adjustment to new business conditions at INA, characterized by growing demands of the many stakeholders, is progressing gradually, and depends upon the size of the company, its ownership structure, strategic importance, and dominant market position. For instance, in market relations, this would mean regulation of the oil products selling price, while in internal organization, it would mean a gradual restructuring. However, the question remains to what extent will the continued privatization of INA, the EU market requirements, and the move into the market of Bosnia-Herzegovina influence possible modifications of such an approach. From this position, INA has also developed its approach to socially responsible performance, combining traditionally rooted aspects of its corporate culture with novel aspects. The central aspects of INA's socially responsible performance include taking care of its employees, and investing into the community by means of donations and sponsorships, while new challenges primarily include increasingly complex relations with various and numerous stakeholders (buyers and consumers, suppliers, investors, associations, etc.). INA's 2006 Sustainability Report mainly indicates positive and stable trends in the domain of quantitative indicators, while particular CSR aspects are additionally systematized. In this sense, emphasis is put on INA's proactive approach in its relations with consumers, joining the Global

Compact, and adoption of the Business Conduct and Ethics Code (in January 2007). By adopting this Code, and introducing the integral system of triple bottom line reporting, INA has also fulfilled its commitments from previous reports. I suggest that subsequent sustainability reports treat certain key issues in more detail. This involves strengthening partnership relations with stakeholders, supply practices, Kyoto Protocol implications and refinery modernization, monitoring implementation of the Code of Business Conduct and Ethics, as well as corporate governance including the Supervisory Board's activity and business with subsidiary companies of INA-Group. Donations and sponsorships should be systematized more precisely and presented by category (e.g. in table form).

Experience so far has shown that triple bottom line reporting is an essential component of corporate social performance. Such an analysis is the basis upon which to communicate with the interested public, as well as recognize the need for changes and monitor their implementation. The INA 2006 Sustainability Report methodically analyzes the social performance and identifies the key challenges for CSR improvement in one of Croatia's major business organizations. In addition to elaborating and monitoring the key issues of strategy and social responsibility, it provides a solid basis for the company's pro-active approach to its future development.



Domagoj Račić, MSc.

EU Accession Negotiations - Enterprise and Industrial Policy  
Chapter Working Group Member

## GRI G3 GUIDELINES APPLICATION LEVEL OF THE REPORT

Application Level:	B+
G3 Profile Disclosures:	1.1, 1.2 2.1-2.10 3.1-3.13 4.1-4.17
G3 Management Approach Disclosures:	Management approach disclosures for each indicator category
G3 Performance Indicators	Economic 6 Environmental 24 Labour 13 Human Rights 4 Society 2 Product Responsibility 5

This report has been review by a third party.

## IMPRESSUM

INA - Industrija nafte, d.d.  
Avenija V. Holjevca 10  
p.p. 555, 10002 Zagreb

Publisher: INA - Industrija nafte, d.d.

For the publisher: Tomislav Štengl

Editor-in-chief: Svea Švel-Cerovečki, DSc

Editors: Anđelka Tokić, Dragica Petričević, Snježana Tabak,  
Darko Limanović, Jadranka Borić

English translation: Silvana Šoštar

Photos: Miljenko Marohnić, Ferdo Buva, Tomislav Lazarić

Design: Digitel

Layout: Digitel

Print: Fimi media